



INTESA SANPAOLO BANK

Albania

2023 Annual Report

"Panta Rhei, the aphorism attributed to Heraclitus, captures my artistic ethos - that everything flows and changes, nothing stands still and that all things are in a state of flux - perfectly".

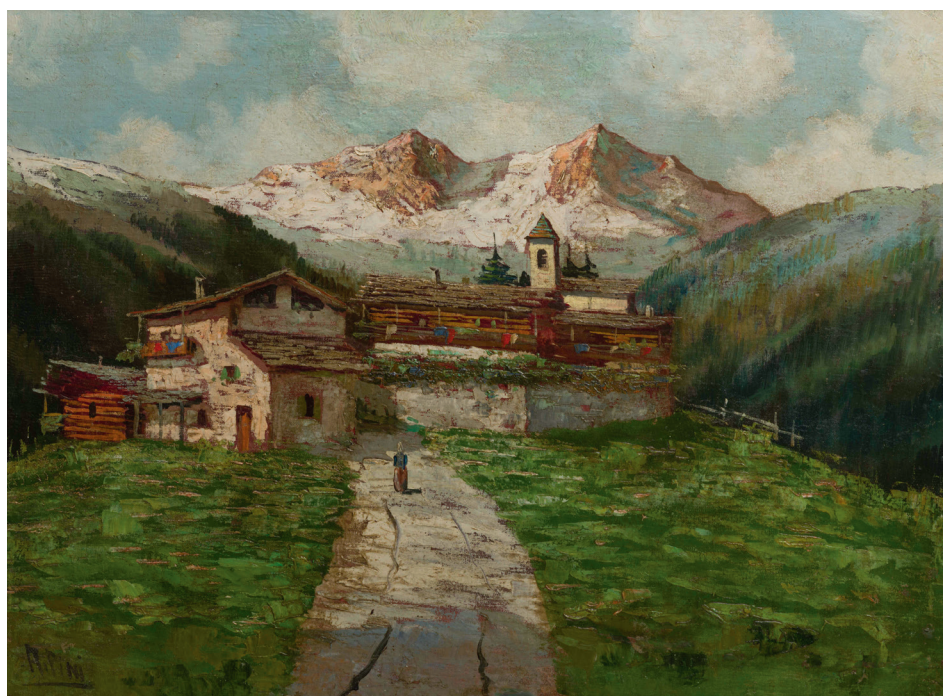
Alfredo Pini was born in Mirandola in 1958. Despite graduating with a diploma from vocational business school, in 1985, he devoted himself entirely to his true passion in life: painting. He moved to Ferrara, where he opened the *Lacerba* art gallery, visited the studios of various artists and enrolled in a number of painting courses. This led him to connect with a number of prominent contemporary artists, including Primo Conti, Bruno Cassinari, Mario Schifano, Bruno Ceccobelli, Concetto Pozzati and Omar Galliani.

In 1987, he began exhibiting work and enrolled in the DAMS (Drama, Art and Music Studies) degree programme at the University of Bologna, whose teachers included Renato Barilli, Umberto Eco and Alfredo De Paz.

Through his work as a painter, he established increasingly close collaborative ties with various galleries in cities in Italy, Spain and the United States, where he continues to present his works in solo and group exhibitions today.

Pini is a figurative artist whose style is characterised by rapid and expressive brush-strokes that capture the movement and vitality of the subjects he depicts.

Cover:



Alfredo Pini
(Mirandola, 1958)
Landscape, 20th century
oil on canvas, 49 x 68 cm

While this piece from the Intesa Sanpaolo collection retains the artist's signature pulsating energy, it shows him adopting a slower and more reflective approach. Featuring stunning mountains with patches of snow in the background and a light blue sky populated with white clouds, which - much like the cerulean blue vein-like stream coursing down the mountainside - provides a subtle hint that spring is imminent, this landscape painting depicts a natural setting that, while imposing, is not oppressive.

Enlivened by small touches of colour provided by the cloths hung out to dry in the open air and the bell tower of the small church flanked by soaring green conifers, the small village in the middle of the composition is painted with heart-felt affection. Here, a quiet rural community reliant on hard work and household tasks lives and breathes.

A lone figure, portrayed from behind, ascends a white path cutting through the middle of a grassy expanse caressed by the wind and sun.

In this painting, there is a sense of a memory evoking a simple, tranquil and almost meditative life created by brushstrokes that, in contrast to the excitable and synthetic ones of the artist's best-known works, are vibrant yet robust. The "flux" captured in this work is not that synonymous with the hectic, breakneck pace of the modern cities that Alfredo Pini often depicts on his canvases, but rather a slow and natural one that conveys the passing of the seasons and our ancient relationship with planet Earth.

TABLE OF CONTENTS

Senior Management Profiles	4
Macroeconomic Environment and Banking Sector	14
Financials at a Glance	23
Management Discussion	25
Manage risk well	26
NPL Management	26
Retail banking.....	27
Channels	27
Relationship with customers	28
Corporate Banking & SME	28
Finance and capital market.....	29
ICT Management	31
ICT division mission and strategy	33
Operations	33
Financial Review	33
Corporate Social Responsibility	41
Relationship with Shareholders	60
Audited Financial Statements	61
Organizational Structure of the Bank	145
Bank Business Network	148
Intesa Sanpaolo Bank Group Italian Network	151

Senior Management Profiles



Board of Directors



Božo Prka
Chairman of the Board of Directors



Beata Kissne Foldi
Deputy Chairman of the
Board of Directors



Gabriele Gherardi
Member of Board of Directors



Alessandro D'Oria
CEO and Member of the Board



Amina Carnabuci
Member of the Board



Konrad Kozik
Member of the Board



Mauro Rossi
Member of the Board

Audit Committee



Konrad Kozik
Chairman of the Board



Beata Kissne Foldi
Member of the Audit Committee



Andrea Bazzana
Member of the Audit Committee

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.

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. D'Oria 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.

Mr. D'Oria hold the position 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 has been appointed in 2022 President of FIAA (The Foreign Investors Association of Albania).

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



Antonio Braghò

Deputy CEO, Intesa Sanpaolo Bank Albania

Mr. Braghò is currently holding the position of Deputy CEO in charge of top managerial supervising of the regulatory framework of Risk Management, IT, Operations and CFO. In addition, he holds the role and responsibility of ESG Management and the overall supervision of all Bank Projects.

Prior to this position, Mr. Braghò had a long and successful career in Intesa Sanpaolo Group which he joined in early 90's in the Financial Risk Sector. Mr. Braghò has held important positions in Intesa Sanpaolo Group; Head of Commercial Coordination in Retail and Wealth Management, ISBD, Head of Direct Channels in Intesa Sanpaolo and Head of Contact Center.

During his experience with the Group, Mr. Braghò managed successfully important strategic and innovative projects such as "Launching multichannel offer", "Client financial planning", "Designing new service models for retail customers" and "Remote advisor". Mr. Braghò graduated from LUISS University - Libera Università Internazionale Degli Studi Sociali with a Degree in Economics. Along with his Banking Career, Mr. Braghò has been a lecturer in LUISS - Libera Università Internazionale degli Studi Sociali for 8 years in the areas of Corporate Finance and Financial Derivative Products.



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.



Alessandro Grillo

Head of Corporate & SME Division

Mr. Grillo is currently holding the position of Head of Corporate & SME Division in charge for the Domestic Corporate & Institutional Clients, Multinational, SME, Corporate Banking Products and CRM & Network Support's Departments.

Prior to this position Mr. Grillo covered several managerial positions in Intesa Sanpaolo Group both in the International Subsidiary Bank Division and in the Corporate and Investment Banking Division in Romania, in Italy and in the United States developing international skills. During his experience in Intesa Sanpaolo Bank Romania he also covered the position of Board Member in Confindustria Romania.

Mr. Grillo graduated in Trading and Economics at the University of Torino (Italy) with specialization in Business Administration.



Patrick Bianco

Head of Retail Division

Mr. Bianco joined Intesa Sanpaolo Bank in March 2024 and holds the position of Head of Retail Division which covers the branches' network of the Bank, the Segments of Individuals, Private Banking, and Small Business clients, Product Pricing, Planning and Monitoring, CRM and Multichannel structures.

Before joining Intesa Sanpaolo Group, Mr. Bianco had many experiences in other Italian and international banks specifically in Banca Generali and Bank of China, holding managerial positions with a strong focus on Wealth Management.

He joined Intesa Sanpaolo Group in 2016 as Private Wealth Executive in Fideuram and in 2020 he led the project of China Wealth Management.

Mr. Bianco graduated in International Relations from the University of Turin in conjunction with Zhejiang University in China and he received his Master's Degree in Banking & Finance (24 Ore Business School) and Risk Management (MIP - Politecnico di Milano).

During these years Mr. Bianco has obtained additional certified qualifications in the banking sector



Orjola Baku

Head of Risk Management Division

Mrs. Pasko holds the position of Head of Risk Management Division, covering the areas of Underwriting, Non-Performing Loans, Credit, Market, Operational, ESG, and Outsourcing Risks.

Following her experience in Business in other Banks such as Raiffeisen and First Investment, she joined the Bank (former American Bank of Albania) in 2008, initially Underwriting and later managing Credit, Market, and Operational Risk.

She has been part of Intesa Sanpaolo Bank Albania Committees, including Credit, Financial, Operational Risk, Internal Control, and Change Management.

Mrs. Pasko graduated in Business Administration at the University of Tirana, Economic Faculty. In 2007-2008 she completed her Master's Degree in Banking Risk Management (UNSBC, Tirana).



Alketa Lamçe

Chief Operating Officer

Mrs. Lamçe holds the position of Chief Operating Officer (COO), where her responsibilities include coherent definition with group goals of the strategies and initiatives regarding ICT, Back Office and Payments, Cyber Security & Business Continuity including Physical Security, Real estate and Logistic Activities. In addition, her responsibilities are to ensure the implementation of the defined strategies and the effectiveness and efficiency of the service level of the coordinated activities.

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 and Head of ICT Division. 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, the Faculty of Natural Sciences, University of Tirana, and completed the Master's Degree in Business Administration, University of Tirana (Nebraska University Program). Throughout her outstanding career, in addition to successfully leading complex projects, she has held the chair of ICT committee in AAB, and attended numerous advanced trainings on ICT, Banking, and Leadership Development Program.

Mrs. Lamçe has been appointed local project leader for the ISP group Flexcube Multi-Entity Program to upgrade Intesa Sanpaolo Bank Albania's core banking system and the Common Integration Platform in line with ISP group convergence strategy, a successful project that was completed within the deadline set by the parent company.



Ledia Plaku

Head of Legal Department

Mrs. Plaku holds the position of Head of the Legal Department. Mrs. Plaku has a long and remarkable career in the Bank, which started back in the year 2000 at "The 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 worked for PMU/Immovable Properties Registration System as Head of the Legal Department. She has held the position of Assistant Professor (part-time) and is a doctoral candidate at the Faculty of Law, University of Tirana at present.

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 the Executive Program, Emerging Leaders at London Business School, UK, and the Leadership Development Program organized by Intesa Sanpaolo Group. Ms. Ledia Plaku has been a member of Tirana Bar Association since May 2003 and throughout time has served as a Member of various Boards/Committees.



Ediola Biçaku

Head of Internal Audit Department

Mrs. 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 Intesa Sanpaolo Bank Albania, 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.

In addition to her role at Intesa Sanpaolo Bank Albania, Mrs. Biçaku chairs the Internal Audit Committee at the Albanian Association of Banks and is a Board Member of the Albanian Institute of Internal Auditors.

Mrs. 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 Riska

Head of Compliance and AML Department

Mr. Riska holds the position of the Head of Compliance and AML Department. Mr. Riska 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. Riska has taught several Law Courses during his career.

Mr. Riska 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.



Suela Totokoçi

Head of Human Resources and Organization Department

Mrs. Totokoçi holds the position of Head of the Human Resources & Organization Department since April 27, 2023.

Mrs. Totokoci has had a long and successful career in the Banking system which started in 1996, at the Commercial Agriculture Bank, and continued at the Bank of Albania, before joining the Bank (formerly American Bank of Albania) in April 1998.

During her professional journey within the Bank, she built her career covering different roles in almost all structures of the Bank; Retail Division, Corporate Division, and Operations Division before being appointed as Head of Treasury and AML Department in January 2009; a position she has held for 14 consecutive years. Ms. Totokoçi holds a University Degree from the Faculty of Economics, University of Tirana.

The speech of the Chairman of the Board of Directors



The global economy performed better than expected in 2023, but growth remained restrained and the economic environment was challenging for many of our customers. Although inflation fell globally, core inflation levels and interest rates remained elevated.

Against this backdrop, most economies continued to grow in 2023 - some above forecasts - while levels of employment remained robust.

The global financial system faced another acid test with the failure or takeover of several banks in the US and one in Europe. But rather than exposing weaknesses, the way in which these events were handled demonstrated the robustness and underlying strength of the banking system.

In 2023 Intesa Sanpaolo Bank Albania delivered an outstanding profitability while further expanding its commercial reach and strengthening its balance sheet and capital levels.

Intesa Sanpaolo Bank Albania managed to overperform its 2023 targets in terms of revenues and net profit. Fee-based income, as one of our main strategic pillars improved by around 7%. We maintained a low risk profile characterized by a conservative risk appetite, strong risk management capabilities, and stable and predictable credit exposures. The cost of risk remained well below our 2023 target. The quality of the loan portfolio remained at a low of 3.1%.

Turning to our performance, I want to pay tribute to our colleagues. The record profit performance that we delivered in 2023 was supported by the impact of interest rates on our strong balance sheet, but it was also evidence to the determined efforts of our people.

Banking sector has continued to play a major role in the economic and business support. 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.

As I look to the year ahead, the financial sector, like many others, is facing profound change. We have dealt with changes successfully in the past, and we will do so again. We do have a clear strategy and a comprehensive plan, and more important, we have the right team to make it happen. I would like to convey my special thanks to all the staff of the Bank that continue to demonstrate dedication and passion to everyday activities, and to all the clients who continue to trust in our bank.

While we want to achieve even more in 2024 and beyond, I am very proud of what we have achieved in 2023.

We will continue to invest in our energetic staff, and take care of our clients, while being at the forefront of technological developments and ESG culture.

Speech of CEO, Intesa Sanpaolo Bank Albania



The year 2023 was characterized by continued geopolitical tensions that created volatile markets; - especially in the first half of the year; and high inflation, which gradually declined throughout the year.

These imbalances that arose in the global economy following the recovery from the pandemic and the war in Ukraine led to an acceleration in global inflation. Central banks reacted by implementing tighter monetary policies, with successive interest rate hikes in 2022 and 2023.

Higher interest rates have had a significant impact on businesses and households; a situation that is expected to change in 2024 with interest rates expected to begin their decline.

The year 2023 commenced with excellent results for Intesa Sanpaolo Bank Albania. I would like to start by paying compliments to all my colleagues for all that they did last year, and in the preceding years. They have fully embraced our core purpose of 'pursuing our goals with honesty, fairness, and responsibility'

Intesa Sanpaolo Bank Albania generated net profit of **ALL 3.1 bln**, with an increase of **137% y/y** compared to the 2022 net profit. The outstanding performance was recorded in all categories of revenues where our bank managed to deliver an annual growth rate of 10% on income from trading activities and 61% in net interest income.

We are very satisfied with the results that show our commitment to enlarging our market share and profitability while playing an important role in financing the business development of our clients.

2023 marked an extraordinary achievement for Intesa Sanpaolo Bank Albania as it was licensed by Albanian Financial Supervisory Authority to act as an intermediary in the marketing of shares and units of foreign undertakings for collective investment in Albania by offering selected Luxembourg UCITS issued by Eurizon Capital S.A. Intesa Sanpaolo Bank Albania and Eurizon Capital S.A., the subsidiary of Eurizon Capital SGR, become the first entities to receive license from Albanian Financial Supervisory Authority to offer to local citizens direct access to collective investments in the EU.

The year 2023 marked the first cashless smart Branch of Intesa Sanpaolo Bank Albania located in the renovated area of Piramida that aims to not only serve customers but also to enhance financial and digital banking education for the young generation.

Intesa Sanpaolo Bank Albania launched during 2023 its first Mortgage Center which will further facilitate the process for individual clients to obtain their home through a transparent loan process. In addition, we continued to support financial inclusion thanks to the soft loans programme.

Intesa Sanpaolo Bank Albania has the strongest capital position in the market (CAR 27.8%), which coupled with a meager NPL ratio (3.1%), lays ahead great opportunities for further organic growth, in line with Intesa Sanpaolo Group's medium-long term strategies.

Despite the high inflation rate and increase in prices, we managed to keep the cost/income ratio below the target level. Intesa Sanpaolo Bank Albania has long been at the forefront of accelerating the transition to a low-emission economy with specific credit lines for private individuals and businesses and with an increasingly wide range of sustainable investment products.

In 2023, Intesa Sanpaolo Group, through Intesa Sanpaolo Bank Albania and Privredna banka Zagreb d.d. (PBZ) successfully participated in a €99m project financing for the construction and operation of the Karavasta Solar PV, at the coastal site of Karavasta in Albania. Project Karavasta relates to the construction of a 140MW solar PV, which will become the largest solar power plant in the Western Balkans.

Also, during the year 2023, Intesa Sanpaolo Bank Albania has joined the flagship Youth in Business programme of the European Bank for Reconstruction and Development (EBRD) to boost on-lending to micro, small and medium-sized enterprises (MSMEs) that are owned or managed by young entrepreneurs. The Youth in Business programme aims to empower entrepreneurs under the age of 35, supporting them with financial and non-financial products tailored to their needs, demonstrating that young businesspeople are a bankable segment.

We will continue on the process of transforming all the important pillars of our way of doing business; it is not only limited to technologies and digitalization, which remain important factors but also to improve further the culture of client service.

As we move into 2024, there are opportunities ahead for us to adapt, change, evolve, and become more resilient to better serve our customers.

The key asset of our Bank remains our people. I firmly believe that we should continue to reinforce our commitment to our colleagues. We will further raise the level of communication and participation, aiming to increase everyone's motivation.

Together, we delivered brilliant results, accomplished many important projects and we stay committed to our future evolution.



Macroeconomic
Environment and
Banking Sector

General Overview

The Albanian economy during 2023 showcased a sustainable trend, characterized by rising wages and employment, declining inflation rate, enhanced fiscal metrics, reduced public debt, increased loans and deposits, decreased non-performing loans, increased foreign direct investments, improved current account deficit, and strengthened exchange rates.

Despite preserving its stability, the Albanian economy experienced a deceleration in growth rates for the second consecutive year in 2023, following the rapid recovery witnessed in 2021. Persistent high inflation, an environment of high interest rates, population decline due to accelerated immigration rates, and the global economic slowdown resulting from ongoing conflicts were some of the key factors affecting the trend. However, a positive development was the country's re-emergence as a genuine tourist destination, which offset the decline in consumption stemming from the population shrinkage trend.

According to INSTAT, the Gross Domestic Product (GDP) for 2023 witnessed an increase of 3.44%, following a growth of 4.86% in the preceding year.

Construction and Real estate activities continued to spearhead economic growth in 2023, while maintaining their lead for the second consecutive year. During the second half, areas such as: Public administration and protection; mandatory social insurance; education; health and social work activities saw a rise in the contribution, driven by salary increases in public administration and a concentration of capital expenditures towards the year-end. Additionally, Arts, entertainment and leisure, household goods production activities for own use and other services recorded notable expansion. Despite advancement in tourism, the sector encompassing Wholesale and retail trade; repair of vehicles and motorcycles; transportation and storage; accommodation and food service activities witnessed minimal growth, impacted by reduced local consumption due to population contraction. Throughout 2023, Manufacturing industry and Agriculture remained in negative territory, influenced by rising costs, adverse international conditions, and the strengthening of the local currency, which adversely affected exporters.

Consumption growth rates recorded a slight improvement in 2023, primarily driven by a notable acceleration in public administration consumption. However, population consumption recorded its lowest growth rates since 2020, when the country was faced with the Pandemic consequences.

For 2024, the international institutions and the Albanian government anticipate continued sluggish economic growth, reflecting the persistently tight financial conditions, the heightened geo-political tensions in Europe, and

the ongoing inflationary pressures. The International Monetary Fund (IMF) sets Albania's economic growth for 2024 to be around 3.30%. Labor emigration has emerged as a major concern, adversely impacting both the labor market and economy. Nonetheless, the services sector propelled by tourism and the channeling of private and foreign investments is expected to underpin growth.

The Bank of Albania also anticipates a modest and temporary deceleration in the pace of economic growth throughout 2024, with a subsequent return to potential growth in the following years. This slowdown is expected to mirror the vulnerabilities of the economic activity in the Eurozone, coupled with tightened financing conditions domestically and internationally, alongside labor market shortages.

Following the surge in the Consumer Price Index (CPI) to its highest levels since 1998 in 2022, driven by the global market repercussions of Russia's attacks on Ukraine, inflationary pressures abated in 2023.

The average annual inflation rate for 2023 stood at 4.80%, showing a drop from 6.70% the previous year. Inflationary pressures steadily declined throughout 2023, particularly in the second half of the year, influenced by reduced imported inflation levels. The peak inflation rate was recorded in October at 7.20%, while the lowest was observed in December at 4.00%. Inflationary pressures continued to diminish rapidly in the early months of 2024, dropping below the 3% target set by the Bank of Albania.

Throughout 2023, the Bank of Albania persisted with its monetary tightening policy initiated in February 2022 as a response to the rapid inflationary surge. Following the five successive base rate increases in 2022, which lifted the base rate from a historic low of 0.50% to 2.75% by the year's end, interventions became less frequent in 2023. Throughout the year, the Bank of Albania increased the base rate twice, each time by 0.25 percentage points, reaching 3.25%. The faster-than-expected drop in inflation in the initial months of 2024 is anticipated to curb the Bank of Albania's intentions for further monetary restrictions.

In 2023, Foreign Direct Investments (FDI) in Albania rose by 8.70%, reaching a record high of 1.49 billion Euro. However, growth rates decelerated compared to the expansion of 33.02% in the previous year. For the second consecutive year, Real estate activities remained the primary recipient of foreign investments driven by the country's re-emergence as a tourist destination, which stimulated purchases by foreigners, particularly in the coastal areas. Real estate investments accounted for 21.78% of the total FDIs in 2023, with an increase from 11.40% in 2018. The Extraction industry ranked second in attracting investments, by 18.10% of the total, largely

due to investments in the oil extraction sector. Financial and insurance activities being the third major contributor by 16.02% of the total, primarily influenced by the banking sector's capital growth in response to regulatory requirements from the Bank of Albania.

In October 11, 2023, Moody's International Rating Agency confirmed Albania's current rating as "B1 - with a stable outlook". The Agency assessed that macroeconomic stability has been maintained despite three significant shocks that hit the Albanian economy in recent years—namely, the earthquake by the end of 2019, the Pandemic-induced recession of Albanian economy in 2020, and the European energy crisis triggered by the conflict in Ukraine starting in 2022. Moody's underscored that the country's long-term ability to facilitate the convergence of income per capita with EU countries hinges on the government's successful implementation of structural reforms and efforts to enhance competitiveness relative to other nations in the region.

In September 23, 2023, Standard & Poor's (S&P) international rating reasserted Albania's "B+" rating. Moreover, the Agency upgraded its outlook for Albania from "stable" to "positive". This shift in outlook signifies S&P's belief that the country's fiscal indicators will continue to enhance beyond the agency's initial projections, driven by the government's endeavors to further consolidate public finances.

In March 23, 2024, S&P upgraded Albania's long-term sovereign credit rating for the first time to 'BB-' from 'B+' , citing improvements in the country's fiscal and external positions. The Agency underscored Albania's ability to withstand various shocks, including the 2019 earthquake, the COVID-19 pandemic, and the macroeconomic effects of the Russia-Ukraine war and attributed this economic resilience, in part, to a substantial growth in tourism flows. The tourism boom facilitated an increase in service exports by approximately 15% of GDP between 2019 and 2023, significantly strengthening Albania's external position, according to S&P's estimates.

As a former recipient of International Monetary Fund (IMF) financing, Albania participates in the "Post-Program Monitoring," involving bi-annual assessments of macroeconomic developments, risks, and policies. In the latest review conducted in January 2024, the IMF remarked that Albania's economy has demonstrated remarkable resilience despite facing successive shocks. Fiscal consolidation, increased revenues, and ALL appreciation contributed to restoring the public debt ratio to its pre-pandemic levels. Nevertheless, the IMF cautioned that while Albania progresses towards EU membership, authorities encounter several obstacles hindering productivity and attainment of higher living standards. These challenges encompass widespread informality, governance and rule of law deficiencies, significant gender disparities in labor force participation,

high youth inactivity rates, and infrastructure gaps. Moreover, the IMF highlighted the fact that the increasing emigration of the labor force and population aging pose additional threats to economic growth.

By the end of 2023, the unemployment rate among individuals aged 15 and older stood at 10.70%, showing a marginal drop of 0.20 percentage points. This decline reflects the increase in demand for labor force, particularly in the service sector, driven by the flourishing tourism industry, alongside the scarcity of available workforce, impacted by immigration trends. However, the youth unemployment rate has been increasing by 0.60 percentage points, reaching 22%.

In 2023, Albania witnessed a remarkable tourism surge marking a historic milestone with foreign arrivals over 10 million for the first time, signifying an increase by almost 35% compared to the previous year. During 2023, visitors from Kosovo continued to hold a significant weight of total foreign arrivals, accounting for 43% of the total. Notably, Italian citizens ranked second for the first time, constituting 9.4% of entries, followed by citizens from North Macedonia at 7.4%. Additionally, there has been a notable increase in tourist arrivals from Germany, England, Poland, France, the United States of America, Spain, and the Netherlands, although their individual weight remained below 3% of the total.

Macroeconomic environment in 2023

The growth rates of the economy slowed down in 2023 for the second consecutive year. Economic activity started slowly in the first and second quarters, accelerating in the second half of the year, as a result of the good performance of the tourism sector.

During the first quarter of 2022, there was a significant sluggishness in the growth rates, dropping to 2.83%. This was the lowest growth rate since the third quarter of 2020, when the country was facing the aftermath of the Pandemic. "Fixed assets" activity contributed significantly to growth, followed by Arts, entertainment and recreation, Public administration, and Construction. The activity of "Fixed Assets" recorded an increase of 11.02%. Construction activity expanded by 4.54%. Industry, Energy, and Water activities were off at a slow start in the year, which recorded a minimal increase of 1.23%. Agriculture, Forestry, and Fishing activity stagnated, with an increase of only 0.04%.

In the second quarter, there was a slight growth of Gross Domestic Product (GDP) to 3.29%, led by Construction and Fixed Assets, while Industry and Agriculture were in negative territory. Fixed Assets activity recorded an increase of 11.72%. Construction grew by 14.97%. The group of activities under Trade, Transport, Accommodation, and Food Services resulted in a minimal increase of 1.72%. Agriculture, Forestry, and Fishing activity experienced an

annual drop of 0.16%, while Industry, Energy, and Water recorded a decline of 1.19%.

During the third quarter, the economy slightly accelerated, growing by 3.83%, led by Public Administration (as a result of wage increase), Construction, and Fixed assets, while the contribution of Industry and Agriculture was negative and Trade had minimal impact. Wholesale and retail trade; transportation and warehousing; accommodation and food service sectors experienced a weak expansion of 1.57%. Financial and insurance activities improved by 4.50%. Construction grew by 7.18%. Fixed assets continued their rapid expansion at 10.33%. The Industry sector witnessed a drop by 2.45% due to unfavorable international conditions and the effect of Euro depreciation on exporters. Agriculture, Forestry, and Fishing recorded a decline of 0.28%, due to weak livestock performance and the effect of rising costs in agricultural production.

During the fourth quarter, the economy grew by 3.80%. Improvement was led by Construction (with year-on-year expansion of 10.80%), Fixed assets (immovable property) by 10.78%, and Public administration and defense; compulsory social security; education; health and social work activities with 8.82%. Industry continued its negative trend, contracting by 2.03%, while Agriculture also accelerated its rate of decline, with a reduction of 3.07%, the highest in the last decade.

Throughout 2023, out of the 10 major sectors of the economy, two of them recorded double-digit growth, as did two in the previous year and four in 2021.

Arts, entertainment, and recreation activities of households as producers of goods for own use and other services marked a strong growth of 18.68% in 2023, following negative performance the previous year, although its impact on the economy remains low.

Fixed assets activities were the second-best performing sector for 2023, with a growth of 11.30%, marking the highest expansion rates, at least in the last 6 years.

Construction was the third-highest growing sector annually, at 9.69%, thanks to public investments, increased pace of residential construction, especially in the capital, and tourism development, which has spurred investments in hotels and tourist villages.

Information and communications ended 2023 with a growth of 7.85%. the Telecommunications sector witnessed significant developments in ownership and structure, as the market again focused on two companies.

Public administration and defense; compulsory social insurance; education; health and social work activities recorded a growth of 6.37% in 2023, following a slight contraction of 0.16% the previous year. Wage increases and the concentration of capital investments in the last

months of the year were the main factors driving this trend.

Financial and insurance activities ended the year with a growth of 4.34%. The upward cycle in interest rates slightly slowed down the pace of the banking sector.

Scientific, professional, and technical activities, as well as administrative and support service activities grew by 3.54%.

There was a significant slowdown in Wholesale and retail trade; transportation and warehousing; accommodation and food service activities reaching only 1.73%, after expanding by 9.89% in 2022. The decline in the local population and the impact of high prices are believed to be the main factors behind the slow growth.

Extraction industry and Energy faced a decline of 0.69%, following growth by 5.44% in 2022. The main factor behind this being the contraction by 6.12% of the Manufacturing industry, as a result of rising costs, the decreasing competitive advantage of cheap labor due to continuous wage increases, and depreciation of Euro. A year earlier, the manufacturing industry had grown by 7.09%.

For the first time since 1997, Agriculture recorded a decline by 0.68%, after showing minimal growth since 2019. The main factor contributing to this trend was the decline in livestock. Agriculture is one of the most affected activities by population migration.

In 2023, final consumption by the population slowed significantly, increasing by 2.96%, compared to 7.37% which was the figure for the previous year. Neither the continuous wage growth, nor the significant tourists flow managed to neutralize the decline in consumption resulting from the population decline, especially due the youth migration.

On the other hand, Final Consumption by Public Administration increased significantly by 9.25%, while a year earlier it had dropped by 4.73%.

Overall, consumption in the economy increased by 3.77%, compared to 5.55% in 2022, influenced by the slowdown in population purchases.

The Consumer Price Index (CPI) fluctuated between 4.00% and 7.20% throughout 2023. Since April, inflation recorded levels were between 4-4.50%. Lowest inflation rates were recorded in October, at 3.80%, and highest in January at 7.20%.

The average annual inflation rates in 2023 was 4.80% compared to 7.20% the previous year. The main impact continued to come from Food and non-alcoholic beverages category, with an annual average increase of 9.50%.

The Transports group, one of the main contributors to inflation in 2022 as a result of rising oil prices following Russia's attacks on Ukraine saw a decrease of 7.00% in 2023.

The Bank of Albania (BoA) considered the decline in inflation among our trading partners, the strengthening of the exchange rate, and the response of monetary policy to have helped in curbing this indicator in the domestic market. The Bank of Albania foresees that inflation will return to the target of 3% by mid-2024. This forecast factors in expectations for further declines in inflation among our trading partners, for a more moderate increase in demand for goods and services, and for the gradual reduction of imbalances in the labor market, as well as the gradual reduction of inflation expectations.

In 2022, the Bank of Albania ended its attenuating monetary policy it had been pursuing since September 2011, in response to the rapid increase in inflationary pressures. This policy, although at slower rates continued into 2023.

In March 2023, the Bank of Albania raised the base rate by 0.25 percentage points to 3.00%. Another intervention was noted in November 2023, also by 0.25 percentage points, increasing the rate to 3.25%. In November 2023, the International Monetary Fund Mission recommended that the Bank of Albania raise the base interest rate to 4.50%. The IMF recommended that by increasing internal inflationary pressures, in conditions of labor market tightening and still negative real interest rates there would be room for further increases in the base rate. However, the inflation performance in the early months of 2024, where in February the CPI dropped to 2.80%, below the Bank of Albania's target of 3% makes it somewhat unlikely for the pursuit of an aggressive monetary tightening policy. The Bank of Albania deems that inflation has decreased rapidly, surpassing even its expectations. The Bank believes that the normalization of monetary policy has had a positive contribution in addressing shocks, by alleviating internal inflationary pressures, reducing risk premiums, and promoting the normal operation of monetary markets. According to the Bank of Albania, the current stance on monetary policy remains appropriate for ensuring price stability in the medium-term perspective.

Unlike during 2021-2022, when there was an export rebound from the pandemic, recording strong double-digit growth, in 2023 the trend returned to a sharp decline, influenced by unfavorable international conditions, rising enterprise costs, and the weakening of Euro in the domestic market, which negatively impacted revenues in local currency for exporters.

Exports abroad dropped by 9.55% on a yearly basis in 2023, following an expansion by 32.01% in 2022. Apart from the Food, alcoholic beverages, and tobacco category, all others demonstrated negative performance.

Textiles and footwear exports dropped by 6.58% in 2023, compared to growth by 20.55% in 2022. The negative performance of the sector was affected by the depreciation of Euro, and the rising costs, especially the minimum wage, which caused many foreign partners to relocate production to other countries with lower labor costs. For supporting this sector, at the beginning of 2024, the Council of Ministers adopted a new State Guarantee Instrument worth ALL 4 billion, aimed at assisting the sector cope with the impact, improve technological processes, and further increase its productivity. Textiles and footwear continue to be the largest category of exports from Albania, accounting for 28.69% of the total for 2023, up from 27.77% a year ago.

The product group under Minerals, Fuels, Energy recorded a decline of 12.52% compared to the previous year. The decrease in fuel prices on international exchanges and less favorable weather conditions for electricity production were the main reasons influencing this trend. Minerals, Fuels, and Energy remained the second largest group in the country, accounting for 21.36% of the total, compared to 22.08% in 2022.

Building Materials and Metals constitute the third largest group in the country accounting for 18.91% of the total, compared to 21.64% in 2022. This group saw a significant decline by 20.99% in 2023, following its increase by 31.58% last year. This trend was influenced by a lessened demand for metals and building materials in the neighboring countries, which are the main destination for this group of exports.

Exports of Food, Beverages, Tobacco were the only ones to maintain a positive trend in 2023, as a result of a strong performance in the first half of the year, while in the latter months, the sector was also adversely affected by a declining trend. For the whole year, exports of Food, Beverages, and Tobacco grew by 7.64% on a yearly basis, after expanding by 16.29% the previous year. This group benefited from increased demand in the European markets, higher prices, and increased investments in storage and collection in recent years, although it also suffers from rising costs and Euro depreciation. It is the fourth largest in the country accounting for 10.64% of the total.

Exports of Machinery, Equipment, and Spare Parts dropped by 1.56% in 2023, following a strong growth of 37.39% in 2022. The sector had experienced growth in recent years, driven by increased investment in the assembly of electrical systems for vehicles, which mainly operates under an active processing regime. In 2023, the negative impact mainly came from the depreciation of the Euro, which affected revenues in the local currency of exporters. In 2022, its weight relative to total exports reached 8.87%.

Italy remains Albania's main trading partner in terms of

exports, accounting for 42.92% of the total, at almost the same levels as the previous year. Exports to Italy fell by 10.19% in 2023, after an increase by 35.10% in 2022. The main factor driving this trend was the decline in the Textile and footwear category which holds the largest share in sales to this country, accounting for 51.12% of the total.

Kosovo continued to be the country's second-largest trading partner, accounting for 9.29% of the total trade, compared to 7.76% the previous year. Exports to the neighboring country increased by 8.33% on a yearly basis. The main products exported to Kosovo are "Building materials and metals" (41.23% of the total), "Minerals, fuels, electricity" (20.54%), and "Food, beverages, tobacco" (16.32% of the total).

Greece regained its position as the third-largest trading partner, accounting for 6.51% of the total trade, up from 5.20% the previous year. Exports to this country increased by 13.15% on a yearly basis. The main products sold to Greece included Minerals, fuels, electricity (30% of the total), Textiles and footwear (24%), and Food, beverages, tobacco (16.6%).

Germany dropped in ranking to the fourth trading partner of the country (from third the previous year), accounting for 5.25% of the total, compared to 6.57% in 2022. Exports to Germany dropped by 27.72% in 2023, following its increase by 58.56% in 2022. The negative impact resulted from the category of Minerals, fuels, electricity.

Spain remained the country's fifth-largest partner, with 4.28% of the total, compared to 4.80% the previous year. Exports to this country dropped by 19.10% on a yearly basis in 2023. Minerals, fuels, and energy (oil) is the main group of exports to Spain (with 88.62% of the total), and the trend of exports is directly linked to this product category.

Imports fell by 8.17% in 2023, after an increase by 18.69% during the previous year. The highest impact on this negative trend was due to Minerals, fuels, electricity, Building materials and metals and Food, beverages, tobacco.

Italy remains the leading trading partner in terms of imports, accounting for 22.21% of the total, followed by China, which has surpassed to become the second-largest partner, by 10.74%. Turkey dropped to the third partner with 9.69%. The fourth partner being Germany, with 7.04%.

Due to the higher rate of decline in imports compared to exports, the trade balance improved by 16.72% in 2021. The import coverage ratio with exports was 50.45%, compared to 51.22% the previous year.

The average exchange rate of the Euro versus the local

currency in 2023 was ALL 108.75 per euro, depreciating by 8.55% compared to the previous year. The Euro depreciation reflected the high supply of currency in the market, increased foreign investments, and a significant improvement in the current account deficit, mainly due to the rise in remittances from emigrants and revenues from tourism. This is the lowest annual average of Euro since 2002 when it began to be traded physically.

Euro kick started 2023 at the level of ALL 117 and then showed a downward trend that deepened during July, driven by the entire tourist season. On July 20, the local currency dropped close to the limit of ALL 100, exactly to ALL 100.49, which is the lowest ever recorded level. The decline close to the psychological limit of ALL 100 and the Bank of Albania's interventions in the market led the common currency to appreciate in August reaching ALL 110.58 on August 25. Then Euro weakened again, ending the year at the level of approximately ALL 104. The Bank of Albania estimates that the strengthening of the exchange rate is based on real and structural improvements in the economy, as the surplus of foreign exchange supply in the domestic market is dictated by the rapid decline of the trade and current account deficits over the last few years and the improvement of the its financing with foreign direct investments. In relation to the GDP, the current surplus is estimated at 0.91%, for 2023, meanwhile for the same period of the previous year, the current deficit was 6.19% of the GDP. According to the Bank of Albania estimates this development represents a rapid and unprecedented improvement of the external balance of the Albanian economy, driven by the structural improvement of the balance of trade exchanges in goods and services.

The US dollar also demonstrated a depreciating trend, depreciating by 11.07%, to ALL 100.62, marking the lowest level since 2009, as a result of developments in the domestic market where the local currency strengthened significantly against the main currencies.

The Bank of Albania has continuously intervened in the Foreign Exchange market with the aim of increasing its foreign exchange reserve, according to a calendar determined at the beginning of the year. For 2023, the Bank of Albania has purchased a total of EUR 249 million in the domestic foreign exchange market, with an increase of 75% compared to the previous year. This is the highest level of intervention in the internal market ever recorded.

Immigrant remittances for 2023 were 929 million Euro, recording an increase of 11.39% compared to the same period last year. This is the highest level of remittances that immigrants have transferred to the country, at least since 2008, based on the data reported by Bank of Albania, which is mainly a reflection of the revitalization of the emigration cycle in the country, since 2016.

At the end of 2023, based on the data from the Labor

Force Survey, the unemployment rate dropped to 10.70% compared to 10.90%, hitting another historic low. The slight drop in unemployment in 2023 was influenced by women. At the end of 2023, the unemployment rate increased by 0.1 percentage points for men, reaching 10.80%, meanwhile it decreased by 0.5 percentage points for women, reaching 10.50%.

The average monthly salary of an employee at the end of 2023 was ALL 75,025. Compared to the end of 2022, the increase in the average gross monthly salary for an employee was 13.7%, compared to 10.83% increase during the same period last year. Indexed to average annual inflation, real wage growth was 8.90%, compared to 4.10% the previous year.

The government's decision to increase the minimum wage several times throughout 2023 and the reform to increase wages in the state sector constitute the main reasons behind this trend. Unlike last year, in 2023, wage growth was led by the state sector, while the private sector grew more slowly, despite the issue of labor shortages from immigration.

The average monthly salary for the employees in the state sector at the end of 2023 amounted ALL 87,864, recording an increase of 18.02% compared to the end of 2022, from the 5.56% that was the expansion the previous year. The average monthly salary for employees in the private sector reached ALL 69,400 at the end of 2023, recording an increase of 11.58% on an annual basis compared to 14.16% last year.

Following the increase of the minimum wage twice in 2022, increasing it from ALL 30.000 at the end of 2021, to ALL 34.000 in December 2022, the trend persisted in 2023 as well. As of April 1, 2023, the minimum wage rose to ALL 40 thousand.

The Bank of Albania estimates that the expansion of employment and wages has continued to support the consumption growth, while on the other hand keeping internal pressures on inflation high.

Total budget revenues rose by 12.30% in 2023, supported by an improving economy that boosted business profits and the continued increase of minimum wage and average wage in the economy, which significantly improved personal income tax revenues and social and health insurance contributions.

Revenues from Income Tax and Personal Income Tax and Social Insurance had the most positive performance increasing respectively by 35.40%, 28.70% and 18.00%, on an annual basis for the 12 months. VAT remains the item that brings the largest share of revenues to the budget, with 29.89% of the total, from 33.41% the previous year. The decline in the share of VAT revenues is related to its weak annual growth in 2023, by only 0.52%

as a result of the prices decrease, which reduced VAT revenues in Customs.

Public expenditure growth was again sluggish in 2023 for the second consecutive year, after the Government during 2020-21 pursued an expansionary fiscal policy in an effort to boost the economy adversely affected by the Pandemic and to finance reconstruction after the earthquake of November 26, 2019. Total spending grew by 48.20% annually, but was still 12.00% lower than planned and about 40% of it was concentrated in the last months of the year. The increase in income at a higher rate than that of expenses affected the reduction of the budget deficit by 60.00% compared to the previous year.

The increase in income and keeping expenses under control have influenced the reduction of public debt, which declined to 59.2% of GDP recording a decrease of 7.7 percentage points compared to the previous year. This is the lowest level of public debt since 2011.

Banking sector

During 2023 there was a sluggishness in the banking system, although this trend is mostly related to the effect of the exchange rate, since the data is reported in Lek. Non-performing loans continued to decrease further, meanwhile loans and deposits increased. The significant increase in profits led to the improvement of profitability and profitability indicators.

According to the data of the Bank of Albania, the total assets of the system at the end of 2023 reached ALL 1.97 trillion, with an expansion of 4.68% compared to the end of 2022, from the 5.84% that was the increase the previous year. The slowdown is mainly related to the exchange rate effect. 50.99% of total assets were in foreign currency in 2023 and the reporting of the value in ALL had a negative impact. The weight of foreign currency assets dropped by 1.66 percentage points compared to the previous year. As in the previous years, the banking system invested the free money in lending to the economy and dealing with Government securities. Loans for real estate sector had the main impact on the growth of the banking system assets, affecting 74.24% of the growth. Loans for real estate reached ALL 226.12 billion, with an increase of 40.60% annually, accounting for 11.51% of total assets at the end of 2023, from 8.57% the previous year.

The Bank of Albania estimates that bank financing to the private sector has increased, reflecting both the high demand for financing from businesses and individuals, as well as the willingness of banks to accommodate it. The good performance of credit quality, the perception of low-risk premiums in the economy, increased competition and the healthy position of banks' balance sheets have maintained a positive attitude of the banking sector towards lending.

The loan stock reached 743 billion ALL, expanding by 4.22% annually compared to 9.43% last year. Again, the trend was impacted by the exchange rate. Lending in local currency increased by 14.53% on an annual basis, whereas in foreign currency (expressed in Lek) it dropped by 6.81% in 2023, compared to the previous year. Increase of lending to non-financial private sector was driven by the activities of Transportation and storage, Accommodation and food service, Real estate activities. Lending to this segment accounted for 57% of the total, meanwhile for individuals it accounted for 38.37 % of the total (the rest is mainly owned by lending to public non-financial corporations).

At the end of 2023, the credit stock in ALL accounted for 57% of the total, recording a 5- point percentage increase compared to the previous year. This increase was attributed to the faster growth of lending in ALL and the impact of the exchange rate on the reporting of loans in foreign currency. The Bank of Albania's assessment suggests that banks have been supporting the high credit demand of all economic agents, following a low-risk perception of the overall macroeconomic performance and borrower balances in particular. Moreover, the ongoing high competition within the banking system has encouraged banks to adopt a more risk-appetite approach in lending to the private sector.

In 2023, the growth rates of savings were influenced by the positive performance of deposits in Albanian Lek. Total deposits reached ALL 1.3 trillion by the end of 2023, marking an annual increase of 2.57%, compared to 3.46% the previous year. Savings in the local currency expanded by 4.91% annually. Foreign currency deposits denominated in Lek witnessed a minimal increase of 0.77%. However, the data from the Bank of Albania on deposits in the common currency reported in Euro indicate that savings in Euro reached ALL 7.3 billion in December 2023, recording an annual increase of 15.56%.

In 2023, the banking system reported a profit of ALL 32.48 billion according to local standards, marking a notable increase of 49.84% compared to the previous year, reaching the highest ever recorded levels. The substantial growth of interest income outpacing expenses was the primary factor driving the significant improvement in the banking system's performance.

The substantial growth in earnings contributed to enhanced profitability indicators in 2023. The Return on Assets (RoA) averaged 1.85%, a significant increase from 0.94% in 2022. Likewise, the Return on Equity (RoE) rose to 15.92% in 2023, compared to 8.48% the previous year.

Following the slight increase during the first months of the year, non-performing loans (NPLs) resumed their decline in the second half of 2023, ending the year at 4.74%, compared to 5.00% in December 2022, recording the lowest level since October 2008. The gradual

improvement of the economy, the positive impact of tourism on the demand for goods and services, and the lower-than-expected growth of interest rates are believed to have positively influenced the reduction of the non-performing loans (NPLs) indicator over time. Additionally, the exchange rate played a significant role in maintaining the solvency of foreign currency borrowers, particularly those with incomes in foreign currency.

Following the completion of the banking system consolidation process in 2019, which spanned approximately four years and saw a reduction in the number of banks from 17 to 11, there were no other new significant developments in the banking system for 2023. However, a noteworthy event occurred in December 2023 whereby the Islamic Development Bank was no longer a shareholder of the United Bank of Albania (UBA). The Saudi Arabian Bank sold its 14.37% share in UBA to the domestically owned company "Eurosig," resulting in Eurosig acquiring full ownership of UBA by possessing 100% of its shares.

The banking system remained well-diversified in terms of capital origin. At the end of 2023, 24.70% of the system's assets originated from Turkey, with Austria contributing 15.30% and Italy 10.20%. The share of banks with domestic capital continued to rise steadily, reaching 35.80% by the end of 2023. Additionally, Hungarian capital accounted for 9.20% of the total, while German capital represented 2.20% and Bulgarian capital 2.80%.

At the end of 2023, the banking system had 385 branches, which meant 11 banks less than in the same period of the previous year. Despite the decrease in branches, the number of employees increased, reaching to 7,024, marking a rise of 287 compared to the end of 2022. This figure represents the highest number of employees ever recorded in the banking system.

Key macroeconomic indicators 2019-2023	2019	2020	2021	2022	2023
Annual inflation (%) as of end of y/y	1.1	1.1	3.7	7.4	4
Unemployment rate (%)	11.2	11.8	11.4	10.9	10.7
Real GDP growth rate (%)	2.09	-3.3	8.91*	4.86**	3.44**
GDP at current prices (ALL billion)	1,691.90	1,644.10	1,889.80	2,138.30	2311.7
GDP per capital (USD)	5,380.70	5,317.00	6,336.50	6,771.30	8180.2
Public debt (% of GDP)	65.8	74.5	73.16	66.97	59.2
Budget deficit (% of GDP)	-1.9	-6.7	-3.2	-2.6	-1.4
Average exchange rate (ALL per 1 Euro)	123	123.8	122.44	118.92	108.75
Average exchange rate (ALL per 1 USD)	109.84	108.5	103.5	113.15	100.62

Data on Banking System	2019	2020	2021	2022	2023
Total assets (million lek)	1,475,551.00	1,581,466	1,773,793	1,877,308	1,965,276
Total assets to GDP (%)	87.37	100.58	100.25	91.21	85.01
Total credit to GDP (%)	33.78	39	37.65	34.67	32.17
Total deposits to GDP	60.8	70.75	68.73	62.07	56.42
Economy lending to total assets (%)	38.67	38.49	37.55	38.01	37.84
Total credit (in million Lek)	570,792	608,780	666,178	713,552	743,715
ALL Credit weight	0.52	0.52	0.52	0.52	0.57
FCY Credit weight	0.48	0.48	0.48	0.48	0.43
Total deposits in million Lek	1,027,253.00	1,112,433	1,216,059.00	1,271,642.00	1,304,310.00
Weight of ALL deposits	0.45	0.46	0.45	0.43	0.44
Weight of FCY deposits	0.55	0.54	0.55	0.57	0.56
Net result (in billion Lek)	19.89	16.87	21.63	21.68	32.48
Return on Assets (%)	1.56	1.02	1.33	0.94	1.85
Return on Equity (%)	14.28	8.65	12.17	8.48	15.92
Capital Adequacy Ratio (%)	18.28	18.32	18.08	18.58	19.24
NPL ratio (% versus total)	8.37	8.11	5.65	5	4.74
Money outside deposit corporate (billion lek)	291.4	344.56	366.25	387.65	393.55
Money supply - money liability (billion lek)	1,318.37	1,456.99	1,582.31	1,659.29	1,697.87
MOB/Money supply (%)	22.1	23.65	23.15	23.36	23.18

(Data source: Quarterly GDP publications, INSTAT; Labor Force and Labor Market Survey, T IV 2023, INSTAT; Data on the banking system, Bank of Albania and Banks Association; data on the payment balance sheet, Bank of Albania, Fiscal Statistics 2023, Ministry of Finance; Macroeconomic Fiscal Framework 2025-2027, Public Debt Quarterly Report, Monetary Policy Report of the Bank of Albania, T IV 2023.



Financials at a Glance

FINANCIALS AT A GLANCE

INTESA SANPAOLO BANK / KEY FIGURES

Income Statement	2020	2021	2022	2023
Net Interest Income	3,290,133	3,486,406	3,713,527	5,967,253
Net Fees and Commissions	771,942	872,991	954,867	968,372
Pre-tax Income	2,015,748	1,163,932	2,075,470	4,416,056
Taxes	290,478	204,552	311,503	712,875
Profit	1,294,535	519,679	1,289,763	3,053,723
Income Statement	2020	2021	2022	2023
Total Assets	194,304,286	201,750,857	198,750,538	201,329,806
Loans	52,898,601	54,981,874	56,231,782	54,674,454
Securities	72,073,721	74,422,412	73,221,609	79,190,594
Due from Banks	26,721,728	33,853,071	34,425,463	43,503,088
Deposits	159,507,095	169,461,419	167,115,012	166,183,824
Capital	23,051,769	21,750,587	21,631,796	24,072,153
Total Liabilities	171,252,517	180,000,270	177,118,742	177,257,653
Indicators	2020	2021	2022	2023
Profit / Assets	0.67%	0.26%	0.65%	1.52%
Profit / Total Capital	5.62%	2.39%	5.96%	12.69%
Income from interest / Assets	2.08%	2.09%	2.24%	3.45%
Interest expense / Liability	0.44%	0.40%	0.42%	0.55%
Capital Adequacy	21.54%	23.39%	26.46%	27.81%
Net Assets / Employee	260,658	273,142	253,027	243,152
Number of employees	657	659	700	729

Values in ALL '000

	2022	2023	Change	Change in %
Net Interest Margin	3,714	5,967	2,254	60.7%
Non Interest Income	1,586	1,655	70	4.4%
Total Revenue	5,299	7,623	2,323	43.8%
Operating Expenses	(2,968)	(3,294)	326	11.0%
Loan Provisions	(231)	160	(391)	-169.4%
Net Income	1,290	3,054	1,764	136.8%
Return on Equity	6.0%	13.2%	7.2%	
Cost/Income Ratio	56.0%	43.2%	-12.8%	
Total Assets	198,751	201,330	(2,579)	1.3%
Total Loans (gross)	56,232	54,674	(1,557)	-2.8%
Customer Deposits	167,115	166,184	(931)	-0.6%
Total Shareholders' Equity	21,632	24,072	2,440	11.3%

Values in ALL Million

Management Discussion



Management Discussion

Intesa Sanpaolo Bank Albania Main Challenges and Achievements during 2023

In the face of the geo-political situation and consequently a diverse macro-economic environment, Intesa Sanpaolo found itself in a situation loaded with challenges and uncertainties. We successfully managed to act in agility and redefine quickly our priorities, while at the same time looking forward to our main strategic pillars.

Intesa Sanpaolo Bank Albania grew in terms of number of customers and profitable transactions in all business units, and increased its fee-based income supported by the increase of core customers.

Intesa Sanpaolo Bank Albania made significant progress during 2023 in the following aspects:

Solid capital position: the capital adequacy ratio in 2023 stood at the level of 27.81%, keeping Intesa Sanpaolo Bank Albania in a comfortable position for taking advantage of organic growth opportunities.

Credit quality: further improvement of the NPL stock in 2023, which dropped by 0.5% compared to 2022, keeping the NPL ratio almost stable (slightly increased by +0.1%) reaching 3.1% in December 2023.

Commercial activity: optimistic growth and a well-positioned commercial model focus on higher growth, especially under the Individuals component. Large Corporate lending was concentrated on financing industries like energy, transportation etc., while lending on Retail was focused on mortgage loans and consumer loans.

Manage risk well

CREDIT RISK

Credit Origination quality was at healthy levels, with just 1.17% 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 and Tourism, as components of volumes increase. Such results involved also partnerships and risk sharing agreements with experienced players such as EBRD.

Intesa Sanpaolo Bank Albania has set up guidelines and rules regarding the Environment Social Governance important for the lending process. In this perspective, Intesa Sanpaolo Bank Albania does not lend in the Coal sector, and by 2030 it will gradually exit from all sectors such as: exploration and production of Tar sands, Shale/

tight oil gas and similar. Again, Intesa Sanpaolo Bank Albania continued during 2023 designing specific loan products focusing in sustainable lending, supporting the customer with the best sustainable financing.

Intesa Sanpaolo Bank Albania, being conservative, has set Risk Appetite limits, which are defined by Intesa Sanpaolo Bank Albania 's board of Directors, revised yearly and closely monitor. This has led to Intesa Sanpaolo Bank Albania's maintaining a good quality portfolio, mitigating the risks. For 2023, Intesa Sanpaolo Bank Albania has respected all the Risk appetite limits.

Intesa Sanpaolo Bank Albania, in compliance with its Group rules has in place a Risk Appetite Framework (RAF) aimed at the control of main risks such as Credit Concentration risk, Real Estate risk, Sovereign risk, Foreign Exchange credit risk, etc.

The Pro-active Credit Exposures Management (PCEM) instrument 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.

Intesa Sanpaolo Bank Albania adopted IFRS 9 standard since January 1, 2018, while re-classifying the financial assets in stages as per risk classification applying respective credit losses calculation (1 year or Lifetime expected credit losses). While in 2019, Intesa Sanpaolo Bank Albania adopted the New Definition of the Default, in compliance with Intesa Sanpaolo Group rules.

NPL MANAGEMENT

2023 continued the trend of improvements in the loan portfolio quality. Intesa Sanpaolo Bank Albania continues to out-perform the Banking sector average regarding the NPLs, maintaining the same low NPL ratio as 2022 1 %. 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, in line with Bank of Albania regulations.
- Early intervention on positions potentially subject to restructuring / rescheduling avoiding portfolio deterioration combined with support / involvement by Underwriting team and the new PCEM role, in defining solutions from early revision stages to later deteriorated ones.
- Re-possessed Assets structure and activity, a separate unit under the Operational Division, went on generating

positive results with regards to assets marketing and sale.

RETAIL BANKING

Retail Banking continued down the path of sustainable growth during whole year, marked by a relevant improvement of the Bank's main indicators and achievements of all business KPIs. As a consequence of our continued investments in strategic initiatives to drive growth, as well through re-shaping and creation of new products and services designed with the customer in mind, we grew +15% in individuals loan amounts versus previous year slightly increasing the market share whilst retaining a similar growth rate on deposits side compared to 2022.

In the ever-challenging landscape of financial services, innovation is key to staying ahead and meeting the diverse needs of customers. Fully aligned with the strategic business plan, Intesa Sanpaolo Bank Albania has demonstrated its commitment by launching the Bancassurance activity. The Bancassurance rollout witnessed a series of achievements, including the distribution of competitive property insurance packages and the introduction of Credit Protection Insurance for consumer and mortgage loan clients, innovative for the market. To ensure seamless service, a dedicated platform was developed allowing customers to finalize the insurance policies directly at our Network branches. Additionally, 45% of network employees are now licensed to act as insurance agents.

The introduction of Bancassurance products contributed to a rise in commission income during the 2nd half of the year.

By actively promoting Bancassurance, we strive to become a one-stop-shop for all our clients' financial needs. Through continued development of Bancassurance activity, we remain committed to deliver a holistic financial experience that prioritizes customer security and to diversify revenue streams, fostering long-term success.

In 2023, Intesa Sanpaolo Bank Albania continued to prioritize its branch network, acknowledging the changing needs that emerged from the Pandemic. We opened our first Cashless branch at the "Piramida" area, at the core of the city. This branch is designed for customers who prefer digital banking, as well as those who are future-oriented. It helps ease the transition to more advanced banking technologies. Alongside with a Self-Service customized area that's open 24/7, visitors to the cashless branch can enjoy interactions with "Pepper," a robot assistant that makes waiting time enjoyable.

In line with the Intesa Sanpaolo Bank Albania's objective to reflect a new way of welcoming and providing services to its customers, the former Durrës Trainstation was also refurbished as per Group Standards. This renovation

has created a more modern, spacious, and comfortable environment for our customers.

As we celebrated 15 years of successful operations, Intesa Sanpaolo Bank Albania also revamped its Digital Branch. One of the main pillars of the business plan for 2022-2025 is the digitalization of banking products and services. The Digital Branch is geared towards being more accessible to customers, ready to assist with their queries at any time. The new well-lighted and natural colored premises welcome an energetic team ready to serve customers daily.

Additionally, after careful planning and collaboration, in 2023 Intesa Sanpaolo Bank Albania opened a Mortgage Center for providing focused and expert services for mortgage applicants coming from our partnership agreements. This was further supported by two significant partnership agreements we signed that year – one with Century 21 to facilitate the mortgage application process and another to enable referrals from the Easy Pay network. These partnerships are key in extending our reach and fostering long-term growth.

Lastly, Intesa Sanpaolo Bank Albania expanded its ATM network by adding 11 new machines, primarily located along the coast. This move is part of our strategy to increase our presence in key areas, making banking more accessible for our customers and the broader public.

Channels

In 2023, the adoption of digital banking experienced steady growth. The number of individual customers using digital banking increased by 14 %, while the penetration among Small Businesses rose by 4 %. A total of 1,591 customers successfully activated Digital Banking Service entirely online last year.

Intesa Sanpaolo Bank Albania further expanded its reach by enhancing its cash-deposit capacities in over half of its ATM network during 2023, demonstrating a commitment to diversifying touchpoints to better cater to customer needs. The shift towards digital channels for eligible branch transactions showed significant progress year over year.

A notable 23% increase in digital transactions compared to the previous year highlights the growing preference for digital banking among customers. Approximately 87% of all individual transactions are now conducted through ATMs and digital channels. Encouraging a digital mindset and fostering trust to promote the use of alternative channels for daily banking remained a key focus throughout 2023.

Educating customers on using electronic transaction methods instead of paper-based processes remained a priority, leading to the launch of an extensive informative

campaign within the digital platform covering a wide range of functionalities. Dedicated Task Forces were established to assist branches in promoting channel usage and building trust, alongside training sessions to enhance staff awareness of digital channels.

To enhance bill payment services, new providers were integrated in collaboration with EasyPay partner, and Vodafone postpaid services were directly integrated for seamless payments. The process of selling debit cards was transitioned to a fully online model in 2023.

In 2023, a notable rise in successful chat bot interactions was observed, reflecting an increasing volume of chat requests each month. This improvement stemmed from an initiative aimed at enhancing the overall customer experience and response efficiency of the bot. The introduction of Navigated Experience, incorporating a structured conversational tree based on data analysis and the bank's strategic goals, complemented the existing natural language interaction. This addition was designed to minimize abandoned or terminated conversations and enhance customer satisfaction levels.

Efforts are underway to enable Mortgage Applications through the official website, with a focus on streamlining the process and assessing customer needs efficiently. Standardizing the online chatbot was also a priority to ensure consistent communication and provide clients with prompt and accurate responses.

In 2023 and continuing into 2024, Intesa Sanpaolo Bank Albania's focus remains on standardizing online functionalities to reduce time to market for new features, enhance quality and stability, and improve implementation capacity and flexibility.

RELATIONSHIPS WITH CUSTOMERS

In our role as a bank, we prioritize the development of meaningful connections with our customers as a fundamental aspect of our mission. Our ongoing efforts focus on enriching the customer experience by introducing innovative strategies, such as tailored banking solutions and targeted marketing campaigns designed to meet individual requirements. The Customer Relationship Management platform (CR-ISP) has been instrumental in supporting these endeavors, particularly in facilitating the launch of sales campaigns and post-event follow-ups. This platform has also been crucial in conducting precise customer targeting and management analyses, enabling us to gauge key success metrics that benefit both the bank and our customers. This approach has empowered us to anticipate our customers' financial needs proactively and offer timely support.

Despite the ever-challenging landscape, Intesa Sanpaolo Bank Albania managed to increase by 1.4% its total Individuals Customer base, while maintaining a consistent level of active customers. Additionally, the Small Business

segment customer base remained stable. These results clearly indicate the need to assess emerging trends and market dynamics and to adjust our strategies & campaigns, accordingly, ensuring that Intesa Sanpaolo Bank Albania remains attuned to the evolving needs and preferences of its customers with the ultimate objective of growing.

Through consistent communication and engagement, our goal is to establish trust and loyalty, ensuring that our customers feel appreciated and assisted throughout their banking journey. The increase by 14% in contacted customers compared with December 2022 clearly indicates our unwavering commitment to providing exceptional service, nurturing enduring relationships and our dedication to serving as a reliable financial partner for our customers.

CORPORATE BANKING & SMES

Corporate & SME Division in Intesa Sanpaolo Bank Albania manages relationships with Domestic corporations and Multinational groups, Institutional Customers (Government, Municipalities, and Public Sector Entities) as well as International Organizations and Small and Medium Enterprises. Also, under the competence of Corporate & SME Division the Corporate Products Department, in charge of supporting all bank's business functions for Leasing, Trade Finance, Project Finance and POS acquiring business.

Some important factors that affected the Albanian economy in 2023 have been reconducted to reiterated geopolitical international uncertainty, volatility in energy costs, raw materials prices, strengthening of Lekë to Euro exchange rate trend and increase in reference interest rates. Nevertheless, thanks mainly to the expansion of the tourism industry, for the first time in history, Albania recorded a current account surplus.

Corporate & SME Division continued to offer a wide range of products and services, including standard loans, overdraft facilities, project financing, syndication loans, as well as trade finance facilities (guarantees and letters of credit), time deposits, treasury products (spot and forward FX transactions), domestic and international payment transactions, POS-terminals, business cards, etc.

During last year, the focus of Corporate & SME lending activity was focused on support for businesses affected by the difficulties in the international markets and supply chains with short term, working capital and trade finance solutions, with highest consideration given to the quality of the lending portfolio. Meanwhile the deposit volumes showed an increase of +3% compared to the beginning of the year, both in terms of the Corporate and SME segments.

ESG financing remained a strong focus of the Corporate & SME Division this year, as one of the main pillars of the 2022 – 2025 Intesa Sanpaolo Group's Business Plan. In all

the different business departments we supported through dedicated funding, entrepreneurs who decided to invest in Green and Circular economy, specifically in photovoltaic plants for self-consumption and for energy production, green building solutions, leasing for electric vehicles, etc. Pursuant to these goals we created tailored products with preferential terms and conditions, for better meeting customers' needs, promoting these investments, and supporting the overall sustainable development of the country.

Corporate & SME Division additionally supported not only external ESG initiatives but also internal ones through its business model by accelerating the position of the Bank toward paperless initiatives through promotion of Internet banking service to Corporate & SME customers and ensuring timesaving online operations, while concomitantly reducing physical presence in the branches.

During 2023, the Corporate & SME Division succeeded in increasing by 2% the customer's base, by putting efforts on existing customer's activation, extending in the meantime the number of customers with granted credit lines by 2%.

Another important business stream was created thanks to the collaboration of Intesa Sanpaolo Bank Albania with International Financial Institutions (IFIs) and the Government of Albania to support investments of the SME's local entrepreneurship. In this context, Intesa Sanpaolo Bank Albania signed an agreement with EBRD for an additional risk-sharing facility, under the "Albanian Agribusiness and Tourism Support Facility (AATSF)" that offers companies investing in the agribusiness and tourism sectors the opportunity to benefit of a potential 10% incentives on the invested amount (joint framework supported by the European Union and the Albanian Government).

"Confirming" platform (an International Supply Chain Digital Finance Program that connects buyers and suppliers from different European countries like Serbia, Slovakia, Hungary, Romania, Slovenia, and Italy, supporting the cross regional commercial value chain), introduced in 2022 as a new service promoted by bank, became fully operative in the beginning of 2023.

Intesa Sanpaolo Bank Albania with the outmost focus on continuously improving customer service introduced in 2023 a new service to Corporate & SME customers, the "Business Cash Deposit Machine". This innovative equipment located in 10 Branches of Intesa Sanpaolo Bank Albania enables business customers to deposit their money in real time directly in their business accounts, by avoiding long queues in the branches. The deposited funds become immediately available in the business account to be used for payment transactions.

One of the priorities for 2023 included the improvement of user experience based on dynamic digitalization. Our

Cash Management team focused on the optimization of the payment transactions, aiming to improve customers' cash flow efficiency and bank revenues. During last year Corporate & SME Division generated 13,3% more commission income compared to the previous year, in which incomes generated from payments transactions increased by 1.5%.

Significant importance has been given to the switching of Corporate & SME customers to the digitalized services offered by our Bank, specifically salary payments through "Bulk Service", as an advanced solution offered through our internet banking platform.

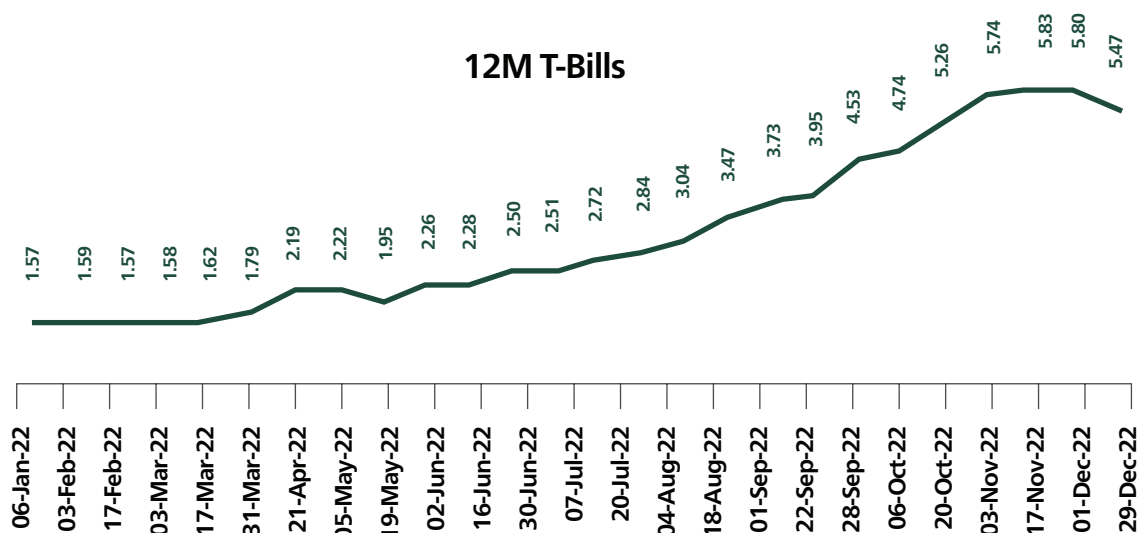
Building a strong relationship with the customers remained the focus also for 2023 and still stands for the future. Last year our Bank organized a number of central and local activities (commercial and institutional) to present INTESA SANPAOLO BANK ALBANIA's initiatives, new products, and services with a high level of interest and participation from existing and potential customers. To be mentioned also the strong collaboration with Intesa Sanpaolo Group for the presentation of important industry research activities and outcomes. These initiatives aimed to promote Albanian business internationally and support local entrepreneurs to have additional market analysis for a deeper level of comparative knowledge and information on their fields of activity.

FINANCE AND CAPITAL MARKET

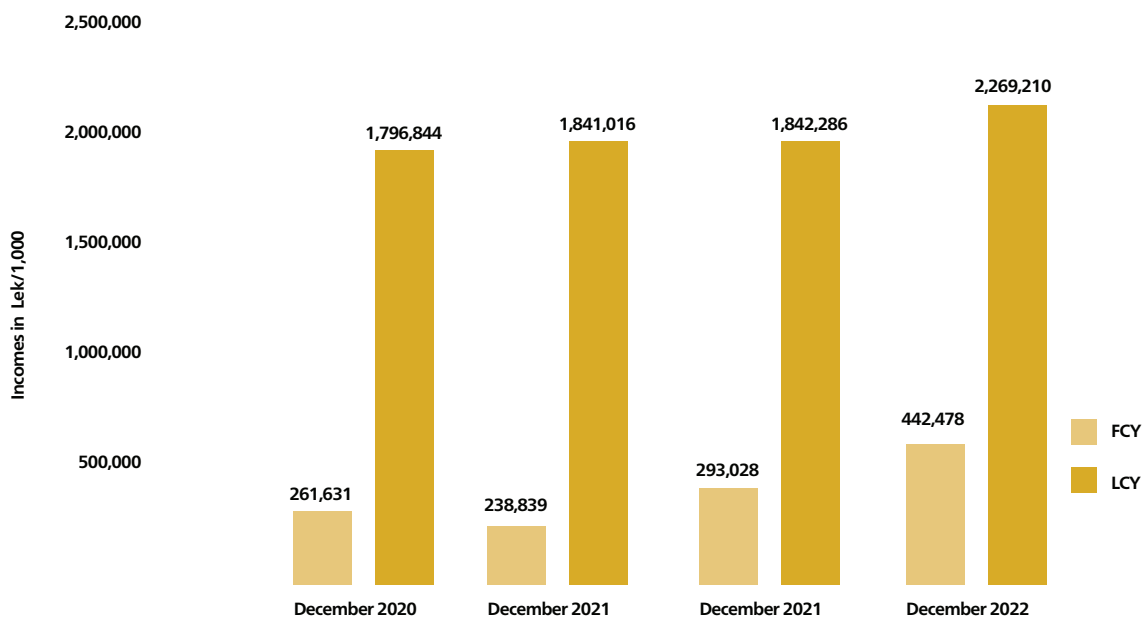
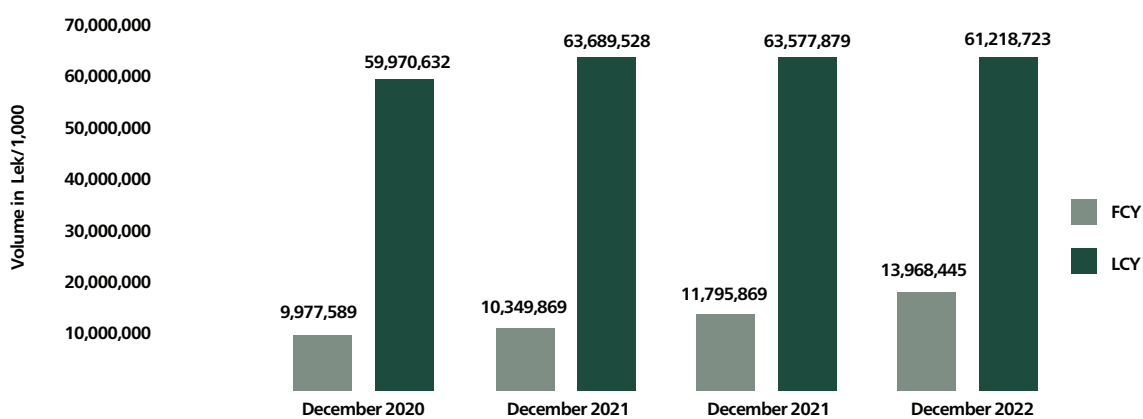
During 2022, Treasury and ALM delivered an increased contribution in NII related to the investments in both Albanian Government and Foreign Currency Securities, which was driven mostly by the increased trend of the yields in the domestic and the international market.

The yields of the Albanian Government securities in LCY, as a reflection of the five consecutive increases of the base rate from 0.50% to 2.75% within the March -November 2022 timeline as Bank of Albania monetary policy response to the increased inflation rates, experienced a continuous significant upward trend. Also the growing demand for liquidity in the last quarter of 2022 by the Ministry of Finance and Economy busted the yields increase even further. As such, the yields of the 12M T-Bill in the local currency, the most sensitive domestic instrument to the market condition developments, in 2022 varied from 1.57% to 5.83% with average 3.19% versus the range 1.46% to 2.17% with average 1.75% in 2021.

Similarly, as per ECB and FED monetary policy in response to inflation, within 2022 the base rates jumped from negative or zero level area (EUR -0.50% and USD 0% - 0.25%) to a significant increase (EUR 2.00% , USD 4.25 - 4.50%), dictating as such the bonds yields for every new investment or the reprice of floating positions. In this environment, the new accomplished investments into supranational and Albanian Government domestic bonds contributed directly into NII.



One of the important activities of this Department, closely related to the activity of Corporate & SME and Retail customers has focused on 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

Throughout 2023, the ICT team has taken significant decisive steps in implementing the ISP Group but also bank's strategic goals, going toward finalization of the Flexcube Core Banking System upgrade as the most engaging project, confirmed at the same time, as one of the main pillars of ISP Group ICT Convergence Strategy. This annual report provides a comprehensive overview of our division's performance, achievements, and challenges, showcasing the initiatives that have strengthened our infrastructure, enhanced customer experiences, and bolstered our security measures. Through dedicated teamwork and a focus on continuous improvement, the ICT division has contributed to the bank's success and positioned us well for future growth.

Among the **Intesa Sanpaolo Group Initiatives**, the main projects that have been accomplished during 2023, for the implementation of solutions in compliance with ISP Group standards and important regulatory institutions such as ECB and Bank of Italy, are:

- **Flexcube Core Banking System upgrade program**

"Following the successful completion of the "Inception" and "Elaboration" project phases during 2022, in 2023 the "Construction" and "Transition" project phases were completed, marking the accomplishment of major project milestones, such as finalization of Functional and Integration Specifications, Integration and customization developments leading to completion of System Integration testing and User Acceptance testing. The next upcoming major milestone planned to be completed within February 2024 is the finalization of Regression testing and the Go-Live of the new version of the Flexcube Core Banking system.

- **OBDX Upgrade** - Along with the Flexcube Core Banking System upgrade, the project for the upgrade of the internet banking solution for Legal Entities (OBDx) has progressed aligned with the plan. During 2023 main milestones completed have been the completion of the Functional Specification Requirements, developments of customizations and User Acceptance Testing. Activities for the conversion to the new version of OBDx are aligned with the Flexcube CBS upgrade project targeting the Go-Live date on February 2024.

- **Digital Solution** - Integration of the Digital platform has been completely redesigned by the introduction of the Common Integration Platform (CIP) providing increased security and flexibility for the upcoming development and Digital releases in the coming years.

- **ECB Credit Risk Loan Tape project** – Enhancement of BFD Data Feeding process to fulfill ECB requests to financial institutions to produce Credit Risk Loan Tapes to support On-Site Inspections (OSI), by supplying a standard informational set. Phase 1 activities were completed by October 2023, and the implementation of the full scope will proceed until 2025.

In order to fuel the Intesa Sanpaolo Bank Albania Business engine, several **Intesa Sanpaolo Bank Albania Internal Projects and Initiatives** have been in focus of ICT Division:

- **Acumen Upgrade** - Upgrade of the obsolete version Front End Treasury system (ACUMEN) to the latest release 9.24 has been completed during 2023. Upgrade scope also included migration of Acumen to Acumen.plus, and implementation of Acumen.plus Reporting 360 view modules. The upgrade was also a mandatory step for enabling the integration of the Front-End Treasury system with the new version of Flexcube 14.7.

- **Mortgage Center** - The Mortgage Center has been implemented to operate as a reference point for external channels, and to process E2E all mortgage loan applications. Modification and adaptation of Jira Lending Front End solution has been completed to meet the demands.

New services and products with special focus on alternative channels have been finalized, resulting in an increased range of self-service features for the customers, namely:

- **Cash Deposit solution** - The Bank has completed the implementation of Cash Deposit Solution (CDS), as a target customer self-service solution for Legal Entities, over the standard bank teller-driven service, for cash deposit transactions. The goal is to reduce the workload and release resources at branch staff level, as well as to improve customer satisfaction thanks to added autonomy for transaction execution.

- **Mutual Funds** - The main objective of this project was to launch the Distribution of Investment funds established by Eurizon in Albania, in order to promote the Bank's image in the market and in the same time to extend the range of fee based services along with innovative products. Front End solution developed by local ICT, automating most of the steps of the internal INTESA SANPAOLO BANK ALBANIA application processes.

- **Bank Assurance** - offering of non-life insurance products, bundled with consumer & mortgage lending products to have a successful commercial approach, better mitigation of risks for lending products, effective cross-selling and increase Bank's profitability. Front End solution developed by local ICT, automating most of the steps of the internal INTESA SANPAOLO BANK ALBANIA lending processes starting from sales phase. Real time integration with provider to generate and book non-life insurance policies automatically.

- **DCC in ATMs** - along with the Surcharge Fee, the Bank has introduced the Dynamic Currency Conversion service which will give international cardholders the option to be billed in their domestic billing currency providing customers with a greater confidence in performing the transactions, while at the same time increasing bank profitability on the ATM service.

Enhancement and automation of existing business processes has also been part of Intesa Sanpaolo Bank Albania ICT Division tasks, identifying improvement areas, for which ICT has strongly contributed towards facilitation, optimization and proper monitoring:

Document Management System (DMS) – Enhancement of existing solutions, for ensuring compliance with the new architecture, while also introducing a new Front End for better User Experience. In addition, upgrade of existing technology implemented providing better performance and security.

Bank Portal – Upgrade of existing Front-End solution enabling the introduction of new automated services and customized functionalities shifted from Core Banking to Bank Portal, providing flexibility and better user experience.

JIRA Upgrade – Upgrade of 6 JIRA Instances to be complied with the latest versions needed in the framework of overall architecture change related to Core Banking System Upgrade Integration. New versions of JIRA introduced a better user experience, performance and security level.

In line with ISBD IT Strategy several initiatives/projects have been launched **on the Risk Area** to upgrade the automation level in lending processes, such as:

- **Individual Credit Process Automation (ICPA)** is an enhancement aiming further improvement and automation of Individual credit granting, with main scope:

- Integration with other sources/ such as NCB data.
- Improvement of the process for unsecured credit products for individuals updating with new features
- Modifications to the JIRA ICPA front-end solution, as well as improvements to the application bridges that connect external systems with ICPA. These enhancements are designed to streamline processes and improve overall system efficiency.

- **Lending Transformation: Stream 1 – Collateral External Appraiser's Tool** The main scope of this project is:

Re-engineered processes for the most inefficient and time-consuming parts of the lending process, for all customer segments, aimed at achieving:

- Much quicker and efficient lending process with respect to the current one
- flexible to future changes and interactive with other lending processes
- flexible to be integrated with other sources / applications (as per availability)

Stream 1 consisted on developing a new front-end solution

designed to automate the appraisal process of collateral and manage appraisal workflows more efficiently.

This new solution is fully integrated with our existing lending process flow applications. The integration aims to enhance the user experience by streamlining operations both within our lending flow and at the front-end user interface.

- **Scoring Individuals** definition and implementation of a Credit Scoring model for individual customers with the purpose to obtain its customers risk profile on applications and assess their risk profile during lifetime relationship. ETL (Extract, Transform, Load) processes within our local Oracle Data Integrator (ODI) to manage data feeding files effectively. This is essential for assessing customer risk profiles accurately. This integration ensures that our risk assessment capabilities are robust and that the data transitions smoothly between internal systems and the external platform developed by our vendor.

In the framework of recent national and international events that impose potential serious threats on the Banking sector, such as Russia-Ukraine war, and cyber-attacks to public institutions, several **Infrastructural and IT Security related initiatives** have been accomplished, and a series of measures have been taken, to ensure safety and smooth continuity of Banking business and operations.

At the same time, adopting and activating the latest technological trends has been kept in focus, to ensure performant, stable and secure environments for all banks structures.

- **Upgrade of old operating systems.** Actions for upgrade of machines and applications to latest versions have been continuously executed.

- **Implementation of Cisco TrustSEC technology.** Now our network in Albania and VDI part in Cooperation is granularly segregated. And the access rules are managed centrally and independently for all 100+ network equipment.

- **Migration of POS communication to NEXI public IP addresses.** Now all the POS-es communicate directly via internet with NEXI, have only one communication profile, and they are protected by DDoS attacks as well.

- **Migration of backup media.** All the backups and archives residing in Albania are migrated from old LTO4 format to LTO8 which provides 18 times more capacity per tape and simplifies tape management process.

- **Digital Branch relocation.** The network infrastructure and endpoint equipment in Lapraka are upgraded to suite the requirements of Digital Branch.

- **Third-Party VPNs relocation.** All the VPN connections to third parties are migrated in new networking infrastructure which has redundant equipment and links.

ICT DIVISION MISSION AND STRATEGY

In order to support the industrial plan of ISP Bank Albania, Intesa Sanpaolo Bank Albania ICT Division will continue to follow the ISP Group Strategy through:

- Pursue ISP group convergence through the implementation of ISP Group projects.
- Acceleration of digitalization by supporting local business transformation through process automations, with special focus in branch and alternative channel effectiveness.
- Improvement of ICT Application architecture through necessary technological Upgrades.
- Constant Focus on cost control through in house development and system integration.

OPERATIONS

During 2023, the operations of Intesa Sanpaolo Bank Albania continued to be focused on enhancing efficiency, environmentally friendly politics, cost and surface optimization, increase of bank safety, cost reduction, improving client satisfaction and the bank's image.

Operations gave a great support to all segments of the business by opening new branches of Mortgage Center and Cashless Branch leveraging its presence to grow even on young generation. This target group will be reached through Youth Centre in Tirana City Hall – Pyramid that will be the largest training and research center in the digital field in the Balkans dedicated to young people. Also, the new branches supported the enlargement of the bank in new locations for being nearer to the clients.

The refurbishment of the existing branch in Durres city near the former Train Station helps in providing a better environment, it is cost saving and provides for cost optimization. In addition, the new locations have contributed in customer's facilities and ensuring friendly environment for better working conditions for the staff of our Bank as well, with more natural light, fresh air and more spacious working place.

Occupational Health & Safety principles for the wellbeing of the staff and the institution are in full compliance with Intesa Group guidelines and the local legislation. That was the focus for 2023 and was realized through the refurbishment of the premises, risk assessment and improvement of internal regulations. The refurbishment is in compliance with Intesa Group initiative for A joint Group-driven action to reach Net-Zero objectives, replacement of depreciated equipment with high efficiency ones, and the application of Led lighting and replacement of the facades.

Another aspect that Intesa Sanpaolo Bank Albania contributed to in the course of 2023 for reaching Net-Zero objectives was by being part of Intesa Group Green Banking Procurement.

Energy and Environment represent the Intesa Sanpaolo Bank Albania'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 full compliance with Green Banking Procurement took place (a) replacement of the systems and machineries with high efficiency ones that contributed during 2023 to the reduction of energy consumption and respective contribution to the environment; (b) replacement of a part of diesel vehicle fleet with electrical cars. The total replacement will take place by August 2024; (c) replacement of "traditional paper" with recycled paper contributed as part of Energy and Social governance initiatives.

Another aspect of the focus of Sanpaolo Bank Albania is the enhancement of the bank's security and safety by adding the offsite ATM in the 24 hrs. Monitoring Room for full live monitoring of the Bank's perimeter.

To support the industrial plan 2022-2025, Intesa Sanpaolo Bank Albania has followed the ISP Group Strategy by adopting and aligning the local context with parent company technological target solutions and processes.

The strategic goals to be pursued by Intesa Sanpaolo Bank Albania, in collaboration and under the guidance of Intesa Sanpaolo Group aim at raising awareness regarding cyber risks and cyber posture by implementing the Group Extended Integrated Model on Information Security through this customized security program (Integration Plan) organized in three mainstreams of intervention/enhancement:

A. Governance - adoption of the Information Security Model including various macro areas of intervention, such as:

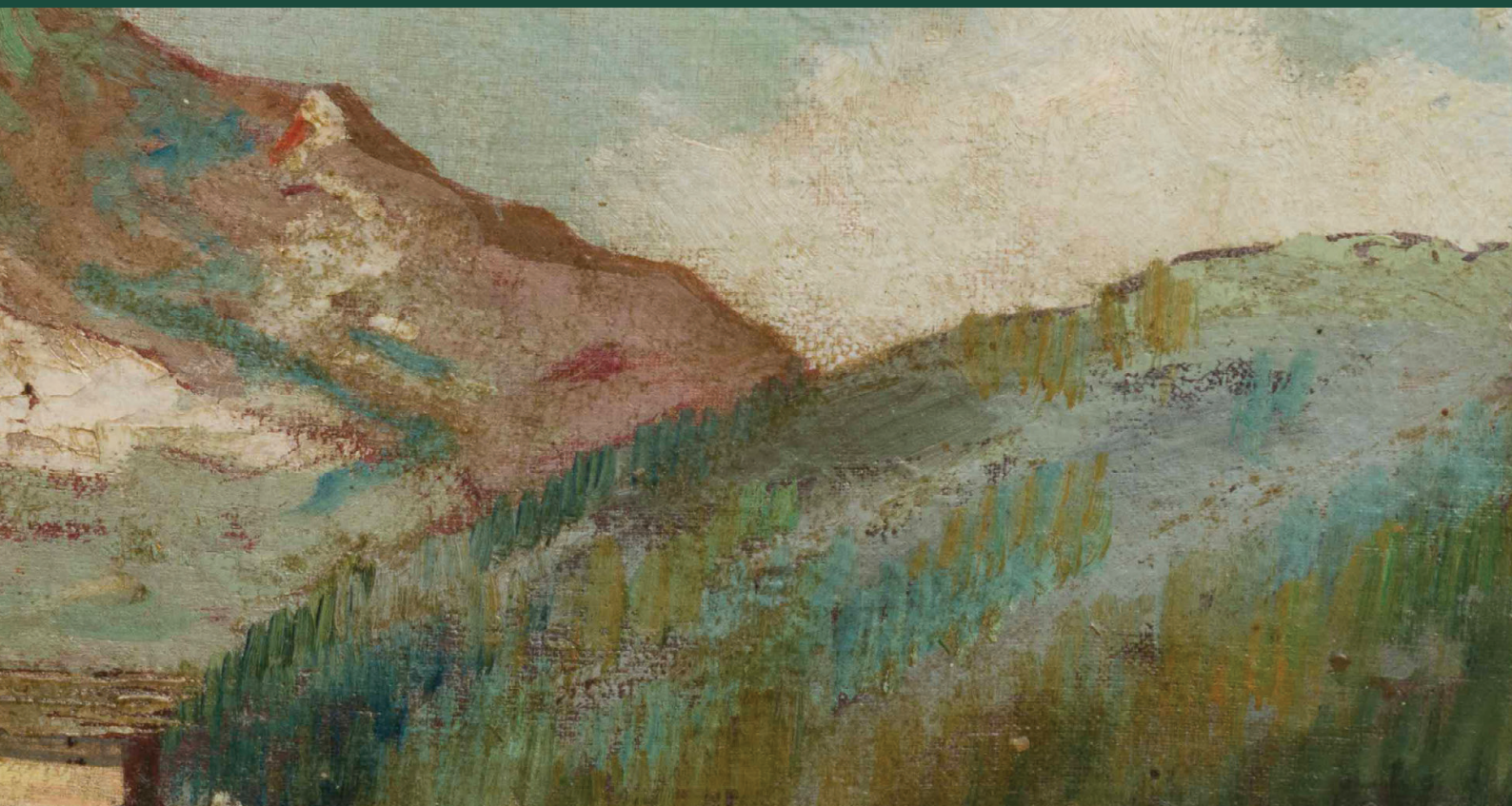
- Maintenance of Parent Company security rules into local regulatory framework
- Definition and approval of IT Security Plan Y2023
- Implementation and execution of new Cybersecurity Macro-processes
- Following Third Party Security Model.
- Enhancing adopted Information Security risk process integrated with Parent Company
- Ensuring Business Continuity Management aligned to Parent Company requirements (review of methodologies and procedures, definition of DR and BC plans, etc.)
- Training and awareness programs to be delivered as planned.

B. Measures/projects - implementation of the Target Security Measures and finalization of ongoing projects:

- Fraud detection and prevention - Extension of current Fraud Monitoring solution on Digital Perimeter and Adopting group target solution, Kleis, Cleafy.
- Endpoint Protection - ATM Protection Solution - [Target Solution]
- Identity Governance and Administration - Implementation of SailPoint Identity IQ
- Adoption of Strong AUTH target solution for all accesses
- 3D Secure code via DIGICAL application
- Activation of Microsoft ATA cloud application
- Activation of Microsoft MCAS solution to protect cloud apps
- Activation of Microsoft 365 Security E5 Package applications (AIP, MDI, MDO)
- Activation of Microsoft Sentinel

Integrated Control Model: Completed the Control Plan for 2023 as per defined plan in coordination with Parent Company.

Financial Review



Financial Review

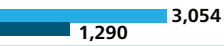



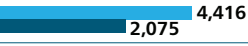




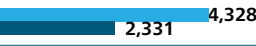






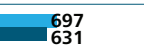


In 2023 Intesa Sanpaolo Bank Albania declared a net profit of ALL 3,054 million. Compared to 2022, net revenues increased in all components.

Transaction-based revenues continued to present core stable income compared to previous year, motivated especially by cards business. Credit quality positively improved keeping NPL ratio stable at minimal levels.

Net profit in 2023 was strongly affected by the good performance on revenues and loans provisions. The Bank managed to deliver a good performance, while concomitantly maintaining a healthy balance sheet structure.

The analysis is made based on 2023 and 2022 results according to IFRS. If otherwise stated, all figures are presented in millions of ALL.

Results 2022 Highlights

			Change	
			amount	%
NET INCOME (LOSS)			1,764	137%
Minority interests				
Levies and other changes concerning the banking industry (net of tax)	-391 -383		(8)	2%
Charges (net of tax) for integration and exit incentives	-258 -91		(167)	183%
Taxes on income	-713 -312		(401)	129%
Income (loss) before tax			2,341	113%
Other income (expenses)	-30 5		(36)	-117%
- Net impairment losses on other assets	-40 -40		0	1%
- Net provisions for risks and charges	-37 46		(83)	-182%
Net adjustments to loans	-231 160		391	-169%
Operating margin			1,997	86%
Operating costs	-2,994 -2,968		(326)	11%
Adjustments to property, equipment and intangible assets	-417 -419		1	0%
Other administrative expenses	-1,209 -1,076		(132)	12%
Personnel Expenses	-1,668 -1,473		(195)	13%
Operating income			2,323	44%
Other Operating Income (Expenses)	-10 -1		(9)	1692%
Net result of fin. assets and liab. valued at FV through PL and on Oth.			65	10%
Net fee and commission income			14	1%
Net Interest Income			2,254	61%



 Y 2023 Y 2022

Lending Results – entirely generated in domestic market

- Total performing loans as of December 2023 stood at ALL 52,998 mln, down by 2.8% from Dec 2022, driven by Corporate Segments. However, it is important to mention that Retail segments delivered an excellent performance, offsetting partially the negative impact of corporate segments. Overall y-o-y performance on lending and funding is strongly impacted by the exchange rate effect, considering that our bank has a concentration in fcy of more than 60% of its portfolio.

Credit quality - further improvement

- Improved credit quality, with a decline in the NPL ratio. Total Non-performing loans in Dec-2023 stood at ALL 1,677 mln, down by 0.5% compared with Dec 2022.

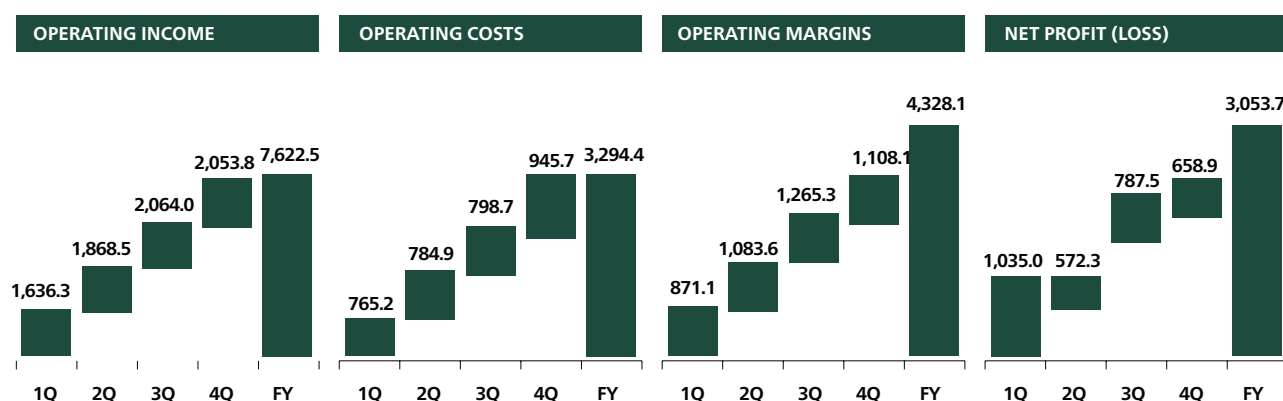
Strengthened capital position

- Regulatory Capital in Dec 2023 stood at ALL 22,447 million, up by 4.5% from Dec 2022 impacted from the increase of retained earnings for ALL 970 mln.
- Capital Adequacy Ratio at 27.81%, up by 1.35% (Dec 2022: 26.46%)

Cost discipline and efficiency

- Cost income ratio at 43.2%, down by 12.8% (2022: 56%)

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



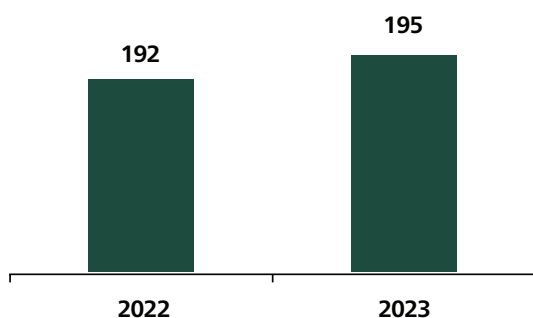
Operating Income

In 2022, operating Income increased by 43.8%, primarily driven by the positive effects on interest income, higher by ALL 2,254 mln:

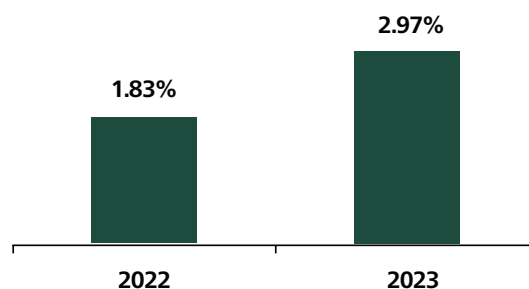
• Interest income

Net interest income increased, primarily supported by a general increase in the interest rates in the market. Performing loans delivered a good performance, driven by overperformance on loan volumes of Retail segments. The y-o-y positive impact from spread effect was ALL 2,307 mln, totally driven by assets side

Average Assets (reclass)



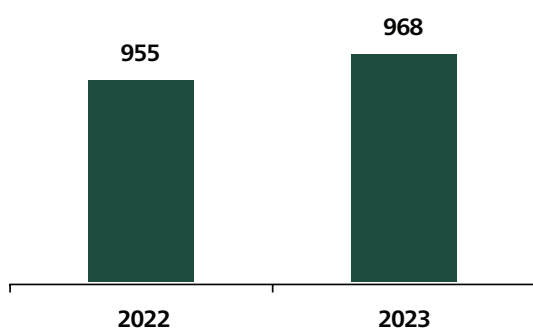
Global spread



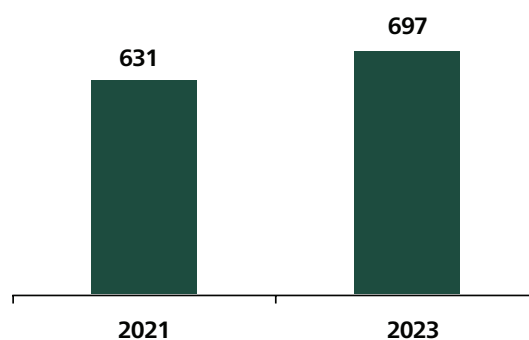
• Higher commission income in all categories

Net commission resulted 1.4% higher in 2023, driven mainly by loan-related transactions and mostly impacted by several one-off transaction events. Higher income on trading transactions by 10.4% in 2023 compared to 2022, mainly driven by high fluctuations of exchange rate.

Net Commissions



FX result



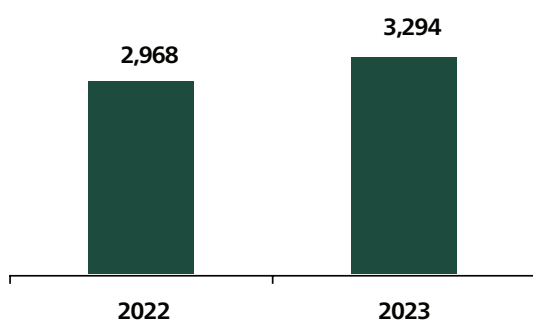
Total Operating Costs

Operating cost resulted 11% higher than in 2022, driven by:

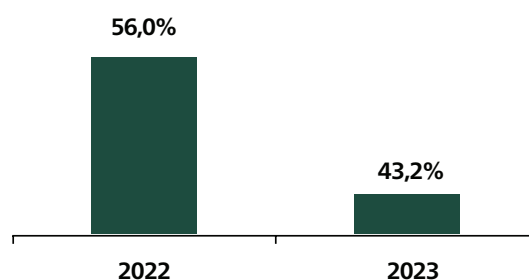
- "personnel expenses" higher than 2022 by +13.3%, driven by higher costs for salaries and wages, impacted by higher number of FTE (in average +53) and higher cost/FTE (+5%)
- "other administrative expenses" higher by 12.3% than in 2022, primarily due to higher intra-group expenses (+17%)

In full alignment with the 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.

Average Assets (reclass)



Global spread



Improved credit risk

NPL portfolio dropped by ALL 9.3 mln which was followed by a slight increase of ALL 77 mln in provisions fund for non-performing loans, translated in an improvement of non performing loans coverage ratio by 4.9%, reaching 57.2%.

	Dec 2019	Dec 2020	Dec 2021	Dec 2022	Dec 2023
NPL ratio	5.4%	4.5%	3.9%	3.0%	3.1%
NPL coverage ratio	46.3%	54.5%	53.9%	52.3%	57.2%
Cost of risk	-0.09%	0.37%	0.91%	0.43%	0.30%

Legal Disputes

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

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

Forward looking statement

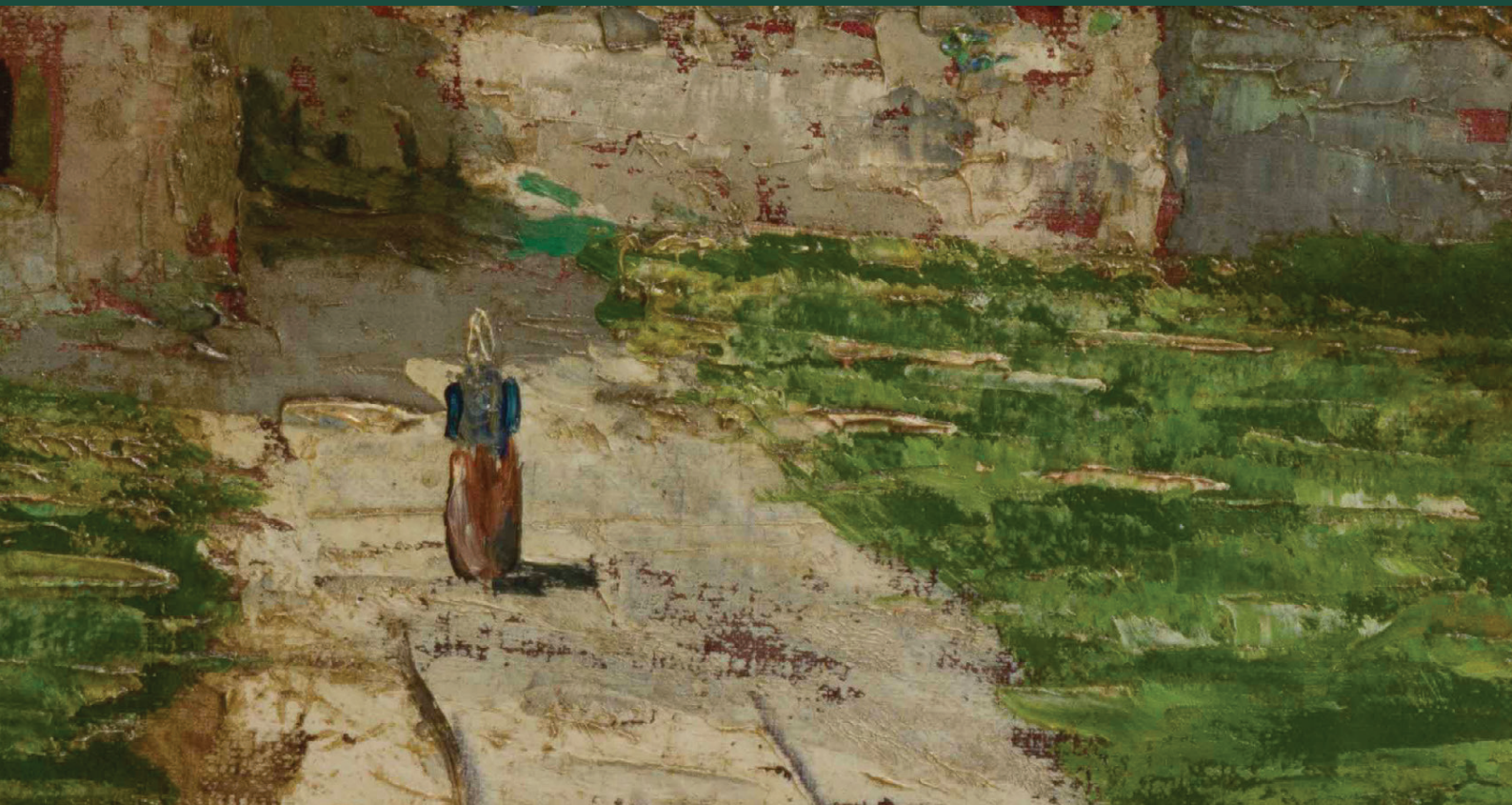
- The Bank's objectives will be focused on leveraging fee-based business with particular focus on:
 - Bancassurance:** introduction of CPI for secured and un-secured loans that was launched during late November 2023; the aim of this initiative is to increase commissions' revenues and the level of protection 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. This new project was finalized in February 2024.
 - Boosting number of SME clients**, average profitability and volumes through dedicated actions, also thanks to "confirming" platform and new **SME service model** (group project **SME 2.0**);
- Increase the Core and Active Customers through special commercial focus, in line with **Retail+** (group project) ambitions:
 - Process simplification** increase share of commercial time and drive convergence with digitalization/ automation of customer-facing and internal processes (cross-channel);
 - Sales force efficiency** - maximize RMs productivity by increasing high value products volume and aligning clients' needs to cost-to-sell, with Individuals as priority
 - HR enablement** - empower people through training, incentives, turnover stabilization and sizing
 - Physical network review** - optimize physical coverage/cost-to-serve, leveraging on geopotential, via optimization of network footprint, based on market attractiveness;
- Increase the **Customer Base** thanks to specific initiatives and more structured activities related to the synergies and external channels;
- Mortgage center** is estimated to improve mortgage process and decrease TTY;
- Develop a modern **Contact Center** by improving a solid service model, to support digitalization and customer care;
- Pricing:** introduce methodologies and tools for pricing of products offered, and at the same time follow up initiatives for repricing;

- a) **re-price** the existing products portfolio to align to market conditions;
- b) define an **adequate price** for the specific clients;

- **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

Corporate Social Responsibility



CORPORATE SOCIAL RESPONSIBILITY

Strategic Approach:

Intesa Sanpaolo Bank Albania sh.a. promotes and implements Corporate and Social Responsibility policies and practices vis-a-vis its employees, customers, suppliers, shareholders, and the environment, guided by the Code of Ethics, which we perceive to be our "constitutional charter".

Our Code of Ethics drives our vision towards a better Bank that can contribute not only to the economic development of the country, but also towards a better society and a better environment.

Intesa Sanpaolo Bank Albania sh.a. remains committed to reinforcing further the Corporate Social Responsibility governance and being a good example for Albania. The Bank is aware of its impact in the society and on the Albanian Economy and integrates sustainability in its corporate governance. Following the ISP Group approach, INTESA SANPAOLO BANK ALBANIA recognizes its social responsibility and integrates it into the decision-making process and in concrete operations, being closer to its customers.

RELATIONSHIP WITH EMPLOYEES

The relationship with the Bank's employees is an important step towards moving Intesa Sanpaolo Bank Albania to continuous care and dedication of the most important asset that is the human capital in contributing to the bank's business. Our interactions with our employees play a significant role in shaping the work environment and the overall success of our organization. Effective communication is the cornerstone of a healthy relationship and the HR Relationship Managers in the course of 2023 as well continued to maintain an open dialogue, active listening, communication of organizational goals, expectations, updates and feedback with the Bank Colleagues. Building strong relationships with our employees is not only beneficial for the morale and the productivity, but it is also crucial for the long-term success of our organization. By prioritizing communication, trust, recognition, support, and fairness, we can create a workplace where employees feel valued, motivated, and committed to achieving our shared goals.

The Bank respects the expertise, opinion, and contribution of each employee and values their diversity and tries to create an inclusive environment where everyone feels respected.

Intesa Sanpaolo Bank Albania has offered opportunities for professional growth and development, by providing resources, training, and mentorship programs. Learning &

Development continued even more intensively in light of the new business challenges, by acquiring new skills and being pro-active. Thus, the Intesa Sanpaolo Bank Albania employees went through various dedicated Trainings even during year 2023.



There was digital on line training through MyLearning Platform (our local platform) - meeting internal trainings needs, covering different areas such as: Compliance & AML, Commercial, Risk etc. Trainings delivered through LEA Platform - LEA is the learning

platform for the International Subsidiaries, offered also in local language. and covering different sensitive areas, such as: Cyber Security, Cyber Fraud, Anti-Corruption, ESG, etc.

As well training sessions with physical attendance, including:

- Trainings held in collaboration with AAB (Albanian Association of Banks). Covering different areas such: Fraud Risk, Audit, Sales& Negotiations, Payments, Risk etc;
- Onboarding periodical training sessions addressed to newly recruited staff;
- Trainings on Bancassurance Project – training sessions delivered by the International Finance Institute of Banking Insurance;
- AGRICULTURE AND SUSTAINABLE FINANCE GROWTH OPPORTUNITIES – Intesa Sanpaolo Albania is increasing its alignment with the Group strategy, planning to grow agriculture and sustainable finance in Albania and to develop sustainable finance with focus on social and climate finance. Within this framework trainings were held in collaboration with IFC -World Bank Group;
- Trainings on AUM Project-EURIZON;
- Trainings on FCC Upgrade;
- Cybersecurity Workshop 2023;
- Training sessions on Lending for the Sales Staff in the Network;
- Several training initiatives organized in collaboration with ISBD, such as follows: Credit Clinic 2023; ESG and Credit Risk; ERMAS a multi scenarios simulator; ISP Group Approach on UBO identification – Foreign Entities; LAB 2023_ From Me to We; ICPA Release IV Workshop; ISP _ WePOG tool Programming; ESG Social Lending etc;
- During 2022 the Bank in motion initiative was launched with the theme: Different Train Station for a full journey to a Bank in Motion- Focus on improvement-5 main pillars:



One of the ideas generated from Bank in Motion - 1st line managers: Open Month Initiative - a campaign for sharing objectives & info related from each structure of the Bank, initiated by the HR Department in November 22 and developed further during 2023 and included each month one particular Department.

In the course of 2023, the Bank launched the **Bank in Motion** Spring & Summer Edition, People Create a Winning Team – Happy Employees makes happy customers;

- **Youth Panel** – created & started by involving the generation <30 in the dialogue and listening to their opinion, to enhance listening and dialogue processes with the Bank; Their proposals which were shared with the top management included:

- o Mentoring – details to follow in 2024
- o Training academy - details to follow in 2024
- o Improvement of the KPI definition process and evaluation process

- In parallel with Bank in Motion first edition, another **series of workshops and culture impacting** was launched in the course of 2023. **Work in a Changing World** delivered by Mr. **Alberto Peretti** specialized in Philosophy and expert of HR and Organizations. The Workshops involved young generation of colleagues and Managers as well. The initiative aims at transforming the workplace to be an inspiring platform of sharing ideas on innovation and offering better services for our clients. It served as a moment of reflection on work and life and how they can be reconciled, making them both richer and more meaningful. The first leg on the journey for Life Transformation. Starting from individual work experiences and sharing feelings from testimonials colleagues, following the moment of signing the document called “Patto di Senso”. **“People Create a Winning Team”** - The final document “Patto di Senso” - The Life Transformation” was delivered to all the staff, reflecting the virtuous triangle “Fare bene – Stare bene – Fare il Bene”.



- Workshops “GYMS – Growing Your Managerial Skills” & “Mindset & practices for effective self & team leadership”, held in collaboration with Mr. Niksa Ilovic (target: Branch Managers & Managers). This inspired the changes in Branch Managers by rotations and dedicated trainings and addressed to Managers of the Bank;



The improvement of the local Health Care package was another important process for the Bank during 2023, aimed at ensuring a sound state of health for all the employees. At the same time, the enrollment of the employees in the Intesa Sanpaolo Group Health Care Programme continued also during 2023, in support of those colleagues with serious diseases who will continue to receive the best possible care from a network of Best International doctors. The International Health Care Programme provides assistance in case of occurrence of certain serious conditions allowing access to a network of second degree medical advisory consultation also for the families of employees. This Programme confirms our Group’s commitment to take care of its employees, that represent the most valuable asset of Intesa Sanpaolo.

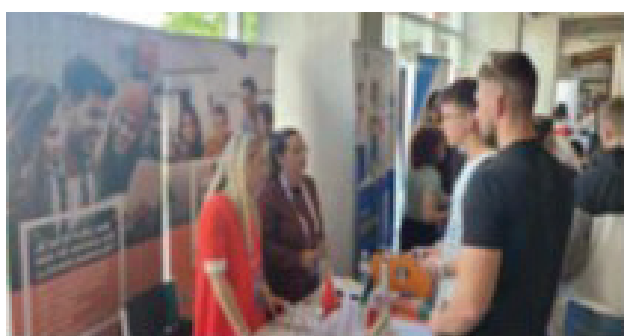
Intesa Sanpaolo Group cares about the wellbeing of its employees, as one of the main pillars of the Human Resources bank strategy, namely “People First”.

Therefore, the Group has provided to all its employees a new support service called “We listen and Support” by a professional psychological team specialized in mental health and well-being at work. This is a new service aimed at supporting all the employees that face emotional difficulties, deal with complex situations, start new projects or face life-changing situations that might cause worries or anxiety.

This professional service gives concrete help in responding to different personal and professional challenges the employee may face in his daily life, which might generate concern or affect his well-being.

Other important strategies and initiatives taken during 2023 include:

- The Talent Programme which gives to our talented employees the opportunity to develop their career within the Intesa Sanpaolo Group through a specialized program.
- International Job Posting. The group also this year gave to all INTESA SANPAOLO BANK ALBANIA employees the opportunity to apply for different positions in Intesa Sanpaolo Italy for all interested candidates who want to develop their career outside Albania.
- Financial Package Revision
- Promotions
- Revision of staff mortgage rates
- Work Fair, participation in 7 well known Universities in Tirana, Durres & Shkoder
- Internship National Program in collaboration with Ministry of Youth & Education



RAISING AWARENESS ON SUSTAINABLE DEVELOPMENT GOALS!

Intesa Sanpaolo Bank Albania continued to support and raise awareness on the Sustainable Development Goals (SDG) during 2023, by organizing several activities and events. Some of the most important activities organized during the year according to these objectives included:



SDG 1 – NO POVERTY!



Let's help a child in need! – June campaign in collaboration with Red Cross Albania: During June 2023, Intesa Sanpaolo Bank Albania in collaboration with Tirana Red Cross organized the campaign "Let's help a child in need!".

The campaign started on June 1st, on the occasion of Children's Day and continued throughout the month, in order to raise as much funding as possible for the children. Colleagues had the opportunity to help children in need by preparing packages of clothing for different age groups, or by contributing cash to the Red Cross account.

All the packages and funds raised thanks to the generosity and kindness of colleagues were handed over to the Red Cross team, who organized a special event dedicated to children, with the help of their volunteers. The activity was organized in the premises of the Red Cross Tirana on September 6th, on occasion of Saint Teresa Canonization Day, which corresponds to the International Day of Charity. During the event, 50 children were provided with schoolbags and all the necessary school supplies, notebooks & clothing.

Mr. Alessandro D'Oria, CEO of Intesa Sanpaolo Bank Albania, representatives of the Bank and the Tirana Red Cross participated in this activity to distribute the presents prepared. **The Campaign of Postcards prepared by the children of the Down Syndrome Albania Foundation:** In December 2023, Intesa Sanpaolo Bank Albania joined the postcard campaign of the Down Syndrome Albania Foundation. The children of the DSA Foundation prepared with great love some beautiful postcard designs (with the help of their therapists) for Season's Greetings. Intesa Sanpaolo Bank Albania very happily decided to support the campaign through buying these postcards for all the staff. The funds collected from the sale of postcards will be used to help the DSA Foundation to provide therapeutic services for

the children who attend the "PRO PAK" service center. At the last page of the postcards, there was a QR code (which could be scanned via mobile phone), or the online address to donate for the therapeutic services during the year.

By means of this gesture, only through a postcard we could triple the contribution: Bank's one, contribution of staff and the contribution of the receiver of the postcard. (in case he/she would like to donate to help the children). Moreover, each postcard on the last page contained the name and age of the child with Down Syndrome who prepared it!



URBAN LAB - SUPPORT TO MINORS AND WOMEN IN DIFFICULTIES IN DIVJAKA AND FIER REGION 2023

On July 1st to 7th was organized "Divjaka Summer Camp for Kids" in collaboration with Vento di Terra and Urban Lab dedicated for kids aged 10 to 14 years old. The 34 participants were divided into three very fierce teams + a group of little ones. During the days, were organized a tournament that included tricks and disguises, clowning, water games and battles, bicycle races in the park, role-playing and skill games, volleyball, football, etc. On July 7th, was organized an awarding ceremony for the winning team of the Summer Camp Tournament and the participants were awarded with a certificate and a small

gift, which were delivered by the representatives of Intesa Sanpaolo Bank Albania.

SDG 2 – ZERO HUNGER



The Bank has a special focus on sustainable agriculture and has provided support to farmers in a total amount of ALL 207 mln (110 clients) in new loans only during 2023.

“Christmas 2023 in solidarity”- a cooperation with the Italian Embassy: On occasion of Christmas Holidays, Intesa Sanpaolo Bank Albania joined the initiative of the Italian Embassy for the Season’s Greetings - “Christmas 2023 in solidarity”.

The purpose of the initiative was to provide gifts to the most vulnerable families, kindly provided by local businesses, as a positive message of peace and solidarity on the Christmas Eve. On this occasion, Intesa Sanpaolo Bank Albania donated 20 Spar cards with a value of **EUR 50** each, which were accompanied by the Bank’s logo and a postcard prepared for this occasion by the well-known Albanian artist Ledia Kostandini.

World Food Day: October 16th marked the World Food Day. 2023’s theme was Water is life, water is food. Leave no one behind! On this occasion, Intesa Sanpaolo Bank Albania delivered dedicated postcards to all staff highlighting some important messages. Water is essential to life on Earth and we all need to stop taking water for granted, and should start improving the way we use it in our daily lives. What we eat, and how that food is produced, all affect water. We can make a difference by choosing local, seasonal, and fresh foods, wasting less of it.



SDG 3 – GOOD HEALTH AND WELLBEING



Voluntary Blood Donation: This initiative has become a tradition in Intesa Sanpaolo Bank Albania and is organized regularly twice per year in May and in November, for thirteen years now. The process of donating blood takes place under the care and support of medical staff. For 2023, 59 colleagues participated in the voluntary blood donation initiatives to help children suffering from Thalassemia or those in need of blood in operations or accidents cases.



March 21st marks the **World Down Syndrome Day**. The theme for 2023 was “With Us Not For Us”! Even this year, Intesa Sanpaolo Bank Albania paid special attention to the commemoration of this Day, by sending personalized postcards to all staff. The purpose of this Day was to raise awareness amongst people around the world and to remind us all that with extra care and support we can change the lives of many people with this syndrome.



In the context of the **World Diabetes Day**, Intesa Sanpaolo Bank Albania provided its staff with information and some important data regarding the different types of diabetes, its common symptoms, risk factors, as well as tips of prevention.



Moreover, the Bank has been involved in promoting different international awareness days related to health, such as: **World Health Day, World Blood Day, World Autism Awareness Day, World Day for Safety and Health at Work, World Mental Health, etc.**



Breast Cancer Awareness Month: Every October, the Bank joins the awareness campaign for the early diagnosis of breast cancer. On this occasion, all colleagues received an informative material prepared by the company “Wellness Albania Clinic”, which included some useful data and information about breast cancer, the necessary periodic examinations, as well as the symptoms and risk factors that affect this disease. Moreover, Intesa Sanpaolo Bank Albania provided a 3D Pink Ribbon on banner dedicated to the breast cancer awareness campaign at the entrance of the Main Branch near the Head Office premises. Anyone was free to join the campaign by taking individual or group photos, which they could post on their social medias to spread the message to a wider audience throughout the year.



"CareConnect" service for all employees: Since June 1st, Intesa Sanpaolo Bank Albania offers a new professional service for psychological support for all employees. This service is promoted by Intesa Sanpaolo Group thanks to the partnership with the European consulting company Stimulus, specialized in the field of mental health and well-being at work.

The purpose of this service is to offer concrete support and help to employees regarding different personal and professional challenges they may face in their daily life, which might generate concern, or affect their well-being at work.

This service is free of charge and is anonymous and confidential. An external professional team of psychologists and psychotherapists is at everyone's disposal to give support to make conscious choices, or to increase self-confidence. Also, the advice and consultancy provided can help to face emotional difficulties and to deal with complex situations, to start new projects, or to cope with situations that may cause worries or anxiety.

Intesa Sanpaolo Bank Albania pays special attention to its employees and cares about their wellbeing, as one of the main pillars of the HR strategy "People First".



SDG 2 – ZERO HUNGER



Open lesson on occasion of Global Money Week: On March 24th, 2023, Mrs. Xhilda Shehu, Head of Alternative Channels and Digital Marketing held an open lesson with students of third year in Computer Science study program, Faculty of Natural Sciences (FSHN). During the session were disc

Career Fairs organized by Epoka and Aleksandër Moisiu Universities: On May 10th, Intesa Sanpaolo Bank Albania was present in the 10th Career Fair organized by Epoka University and on May 25th in the Job & Career Fair at Aleksander Moisiu University in Durrës. These fairs were successfully attended by students interested in internships and employment opportunities.

Representatives of Human Resources Department of Intesa Sanpaolo Bank Albania had the opportunity to get to know the graduated students from close, explaining to them the steps and procedures necessary to start and develop the professional path in the job market.



Job fairs, September - October 2023: During September - October 2023, Intesa Sanpaolo Bank Albania was part of three education training and job fairs organized in the cities of Vlorë, Shkodra and Tirana.

Representatives of the Bank informed the students about various opportunities available to them from our Bank. They were presented with different internship opportunities, with dedicated products and services that respond to their needs and requirements. One of the main products presented was the Youth Package, which is offered completely free-of-charge to students with a student card. There was high attendance of young students and young professionals who were interested in developing professionally and personally at Intesa Sanpaolo Bank Albania.



Internship program: During 2023, Intesa Sanpaolo Bank Albania welcomed 41 interns from various private and public Universities. The students did the internship program in different branches of the Bank, mainly in Tirana and Durrës. They did their internship in different departments such as: ICT, Corporate Division, etc. The internship varied from 1 to 3 months, according to the students' requests.

"S. A. V. E. Ambassadors" competition, second edition: SAVE is a format developed by the Museum of Savings and the European Investment Bank (EIB) and aims to bring young people closer to the topics of sustainability, circular economy, social inclusion and financial literacy. The competition was attended by 17 classes from the four best high schools in Tirana: Sami Frashëri, Qemal Stafa, Ismail Qemali and Arben Broci. During November, representatives of the Bank held an information session for the participating classes.

After this session, the students were asked to choose one of the unresolved environmental and social challenges in their city and to propose alternatives and ideas how to solve them through a project. During January 2024, all the projects will be evaluated by a jury composed by management staff of the Bank. The winning class on local level will be

appointed as "S.A.V.E. Ambassador" and will represent Albania in the international competition, which will be organized online on January 31st, 2024, among all the winning classes from each country where Intesa Sanpaolo Group is present.

Money Master Challenge initiative: In the framework of Global Money Week activities, Intesa Sanpaolo Bank Albania in collaboration with Intesa Sanpaolo Group and the Museum of Savings launched an initiative under Money Master Challenge. This initiative consisted in a quiz-challenge regarding financial education and included curiosities related to money and savings dedicated to 12-13 years old students.

On March 13th was held the qualifying stage between the students of sixth grade from **7 classes** of Turgut Ozal college. The Quiz was performed individually in English on the "Kahoot" application and all the involved students were equipped with Ipads. The quiz was managed by the Museum of Savings staff through an online meeting, who also provided the game pin code. The winner of the game was automatically identified by the "Kahoot" application (based on the number of correct answers and speed of response), and that also meant that his class would also be the winner.

The winners represented Albania in the international competition, where participated all the winning classes from the countries where Intesa Sanpaolo Group is present. The international competition took place online on March 23rd, at the same time for all the countries involving **1500 students**. The purpose of this initiative was to raise awareness on basic financial culture among middle school students and it was a unique experience for all the participants.



JAA Leader for a Day 2023: Intesa Sanpaolo Bank Albania joined the initiative Leader for a Day 2023 of Junior Achievement of Albania. The Bank welcomed a student of JAA in the HO premises, who spent the day together with Mrs. Ermelida Baco to learn more about the daily work of a leader in the banking sector.

The visit of German students in the premises of the Head Office: Intesa Sanpaolo Bank Albania welcomed a visit of 25 students from the University of Applied Sciences Hochschule Mainz, in Germany.

The students invited from Epoka University visited the premises of the Head Office and the newest Branch of the Bank in the Piramida center. They were welcomed by the CEO, Mr. Alessandro D'Oria and from representatives of other structures. During the meeting, they had the opportunity to get to know the Albanian banking market closely, as well as being informed about digital banking platforms and the facilities they offer to carry out banking transactions.



SDG 5 – GENDER EQUALITY

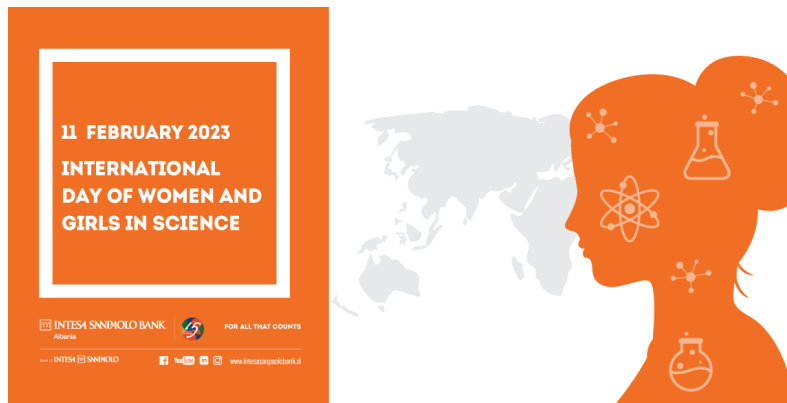


UNiTE campaign, 16 Days of Activism against Gender-Based Violence: November 25th marks the International Day for the Elimination of Violence against Women and Girls and the launch of the UNiTE campaign — an initiative of 16 days of activism! The 16 Days of Activism against Gender-Based Violence is an international civil society led campaign that takes place every year. The campaign commenced on 25th of November, and ended on 10th of December, which is Human Rights Day indicating that violence against women is the most pervasive breach of human rights worldwide.

The theme of the 2023 campaign was “UNiTE! Invest to Prevent Violence against Women & Girls”. Same like every year, Intesa Sanpaolo Bank Albania joined the campaign to raise internally and externally awareness by sending several newsletters to all staff, posts on social medias and through newsletter on ATMs screens. There is #NoExcuse for Violence against Women and Girls!



On the occasion of the **International Day of Women and Girls in Science**, Intesa Sanpaolo Bank Albania prepared and delivered postcards to all the employees, since the Bank has as one of its main objectives to achieve gender equality at work. In the future, the Bank aims to provide further opportunities for all talented women in various fields of science, offering new jobs, as well as financial products specifically dedicated to their professional development.



Also, on occasion of the **International Girls in ICT Day** (April 22nd), the Bank delivered postcards to all staff dedicated for all the women and girls employees of Information and Communication Technology Division.



SDG 6 – CLEAN WATER AND SANITATION



For 2023, the annual consumption of drinking water in the Head Office and Branches was 7,533 M3. Also, the sanitary service is continuous in the Bank's Head Office and Branches.

March 22nd marked **World Water Day** and on the occasion of this day Intesa Sanpaolo Bank Albania sent out postcards to all its employees to raise awareness of people who live without access to safe water.



SDG 10 – REDUCE INEQUALITIES



Tirana Marathon 2023: It is a tradition now that staff members of Intesa Sanpaolo Bank Albania participate in Tirana Marathon initiative. This was the 7th edition of Tirana Marathon, which was organized on October 22nd, and is considered to be one of the main sports event in the city ("European City of Sport"), with the participation of many athletes and sports enthusiasts from many countries of the world.

Tirana Marathon is a manifestation for a healthy and sustainable lifestyle. The organizers of this activity are: Tirana Municipality, EDS Foundation and the Albanian Athletics Federation. In this edition, Intesa Sanpaolo Bank Albania colleagues achieved excellent results. In men category,

Lion Mici ranked 106th from 1417 runners in total and in women category, **Hilda Fili** ranked 80th from 961 runners in total. In the second and the third place, was ranked respectively in men's category **Ledjan Kokonozi** and **Emilian Shurdhaqi**, and in women category **Atea Alinani** and **Frida Dhefto**.



ISBD Sports Event 2023 - Volleyball team won the second place: The event was organized on September 22nd – 24th, in Porec, Croatia, where ISBD colleagues were gathered to play Football, Basketball and Volleyball from different countries. Our women's volleyball team won the second place in this edition, as well as the colleagues of the football team who achieved excellent results. Friendship between colleagues and team spirit were the main protagonists of this activity.



The Bank promoted several international days (according to UN Calendar) related to diversity in a broader spectrum, such as: **International Day of Human Brotherhood, Zero Discrimination Day, International Day for Countering Hate Speech, World Refugees Day, World Youth Skills Day, International Human Solidarity Day**, etc.



International Day of Sign Language: The purpose of this day was to promote the use of sign language in any area of our lives as a way to encourage linguistic identity and cultural diversity of all the deaf people. On this regard, a symbolic postcard was sent to all staff of the Bank.



SDG 11 – SUSTAINABLE CITIES AND COMMUNITIES



Cycling activity - European Mobility Week: Intesa Sanpaolo Bank Albania joined the Cycling activity organized by Tirana Municipality, as a tradition in many European cities on framework of European Mobility Week.

The European Mobility Week is the main campaign of the European Commission for raising awareness on sustainable urban mobility and is organized every year. Cycling is one of the activities undertaken for 2023, which took place on 19th of September, in Mother Teresa Square, continuing through the city.

16 colleagues of Intesa Sanpaolo Bank Albania participated in this activity, some of whom brought also **their little children** to join the other cyclists.



September 27th marked **World Tourism Day**. On this day, Intesa Sanpaolo Bank Albania pays special attention on promoting different forms of tourism and fostering awareness of tourism's social, cultural and economic value, as it is considered as a crucial pillar for development.



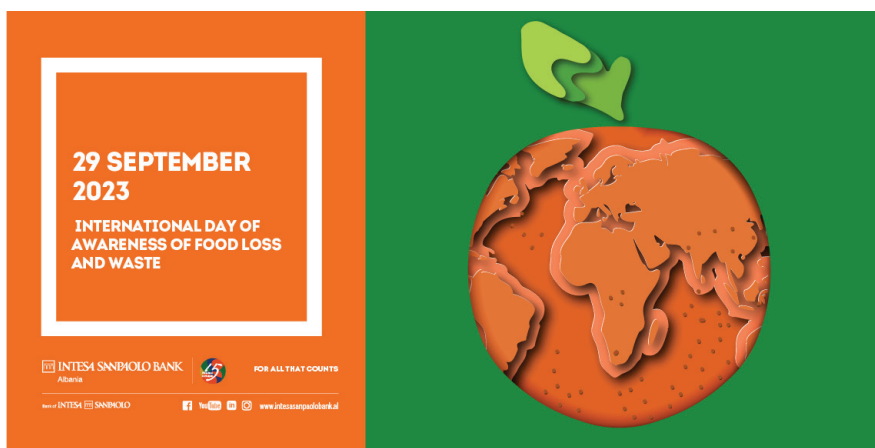
SDG 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION



International Day of Awareness of Food Loss and Waste, 29th of September 2023: Intesa Sanpaolo Bank Albania joined Intesa Sanpaolo Group activities to raise awareness of the employees and customers on the Food Loss & Food Waste.

On this regard, was organized a webinar for the ISBD colleagues (International Subsidiaries Banks Division) regarding “Zero Waste Cooking”, which was hosted by Ms. Dora Primomo (Molecular Biologist specialized in Nutritional Science). This webinar was focused on topics such as healthy eating, and how to improve our dietary routine without causing food waste.

Regarding business during September, Intesa Sanpaolo Bank Albania launched a new offer with zero maintenance fee and with lower interest rates to support the agri-business sector, as the main sector of food production. Throughout this month, agro-businesses had the opportunity to benefit from the dedicated offer for Agro overdraft, and/or Agro Working Capital.



SDG 14 – LIFE BELOW WATER



World Oceans Day (June 6th): On this day, Intesa Sanpaolo Bank Albania prepared and delivered a dedicated postcard bringing to everyone’s attention the main role that oceans have in everyday life. They are the “lungs” of our planet and a very important source of food and medicine, as well as representing an essential part of the biosphere.

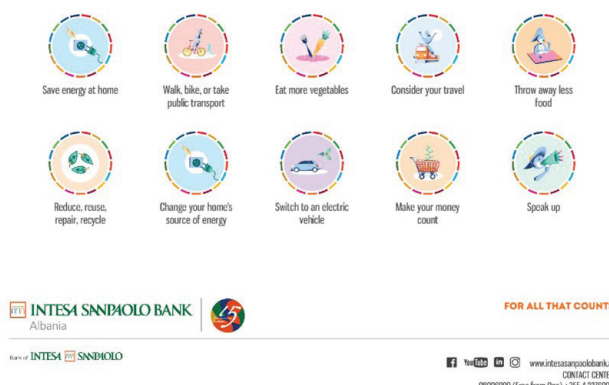


SDG 15 – LIFE ON LAND



International Earth Day: April 22nd marks the International Earth Day. On this day, Intesa Sanpaolo Bank Albania delivered to all staff a newsletter pointing out the impact that everyone's lifestyle has on our planet. Moreover, the Bank presented for all staff 10 simple actions (source: United Nations), that can be followed to tackle the climate crisis.

According to United Nations, let's start with these ten actions to help tackle the climate crisis:



World Environment Day 2023: Intesa Sanpaolo Bank Albania pays special attention to the World Environment Day. In the framework of this day, in its 50th year, Intesa Sanpaolo Bank Albania joined the initiatives of Intesa Sanpaolo Group for the protection of the environment. On 2023, the Bank undertook an initiative, according to which for every financing loan provided to Small Business during 2023, the Bank will plant a tree in the area of Farkë, Tiranë.

The Bank continued to support the UN International Days calendar for raising awareness on SDGs internally and externally through several campaigns. The Bank promoted several UN Days, such as: **International Day of Zero Waste, International Women's Day, International Day of Happiness**, etc.



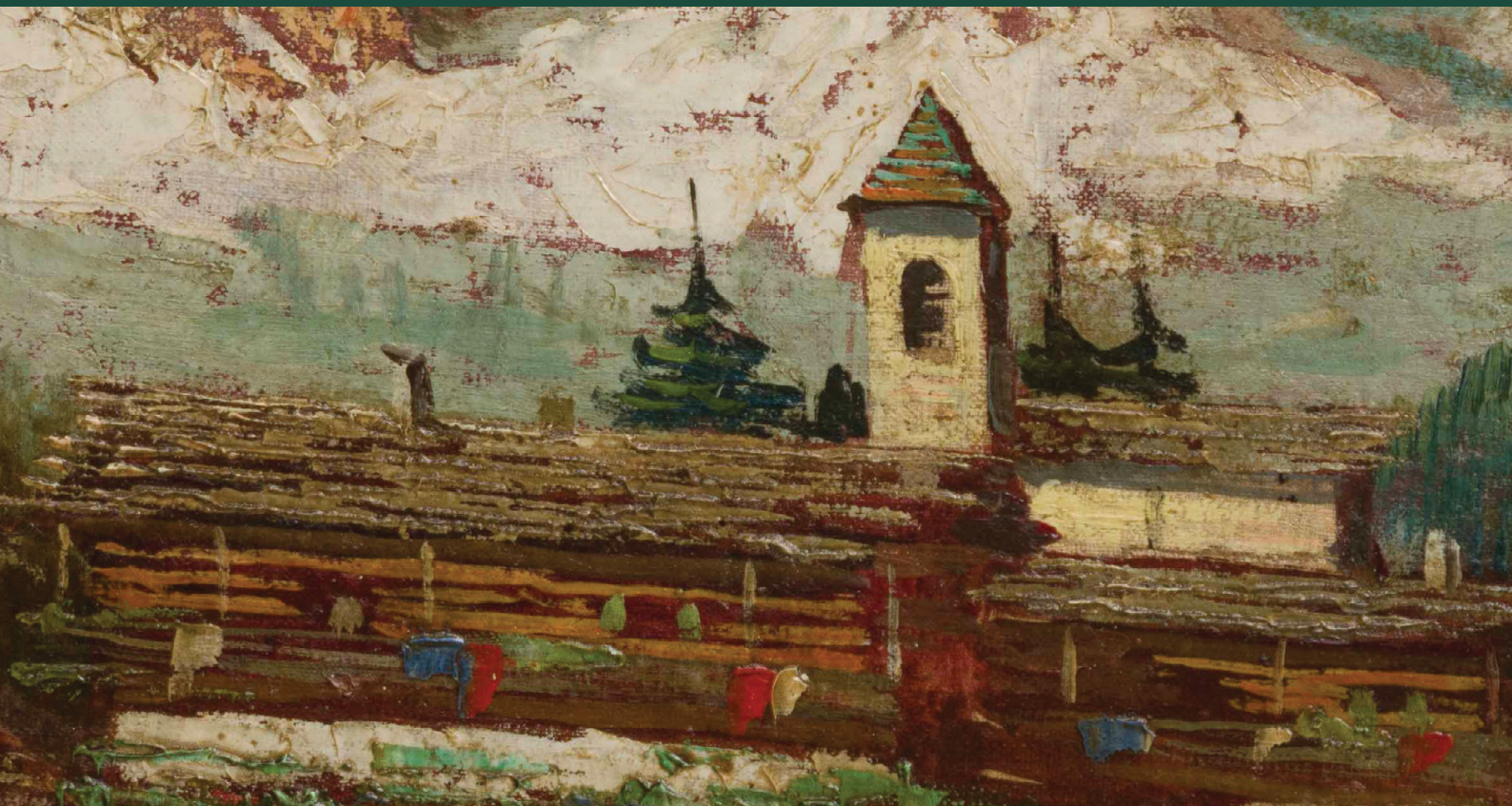
SDG 15 – LIFE ON LAND



Intesa Sanpaolo Bank Albania finalist in the category SDG International Business: Intesa Sanpaolo Bank Albania was announced as a finalist in the category of SDG International Business for the work done on promoting the implementation of Sustainable Development Goals (SDG) in the country. This was the first edition of the SDG Business Pioneers Awards 2023 in Albania.

The first edition of the SDG Business Pioneers awards was attended by 62 businesses of different fields and size. Every participant presented the work done to promote the 17 SDG-s approved by United Nations. The competition between businesses took place during the SDG week in Albania. This initiative undertaken by United Nations aims to recognize and celebrate companies that have shown a serious and continuous commitment in promoting the SDG-s. Intesa Sanpaolo Bank Albania promotes sustainable development as one of the main pillars of the business model, believing that working towards a sustainable development is the foundation of a healthier economy and society, as well as the path to a better future.

Relationships with Shareholders



RELATIONSHIP WITH SHAREHOLDERS

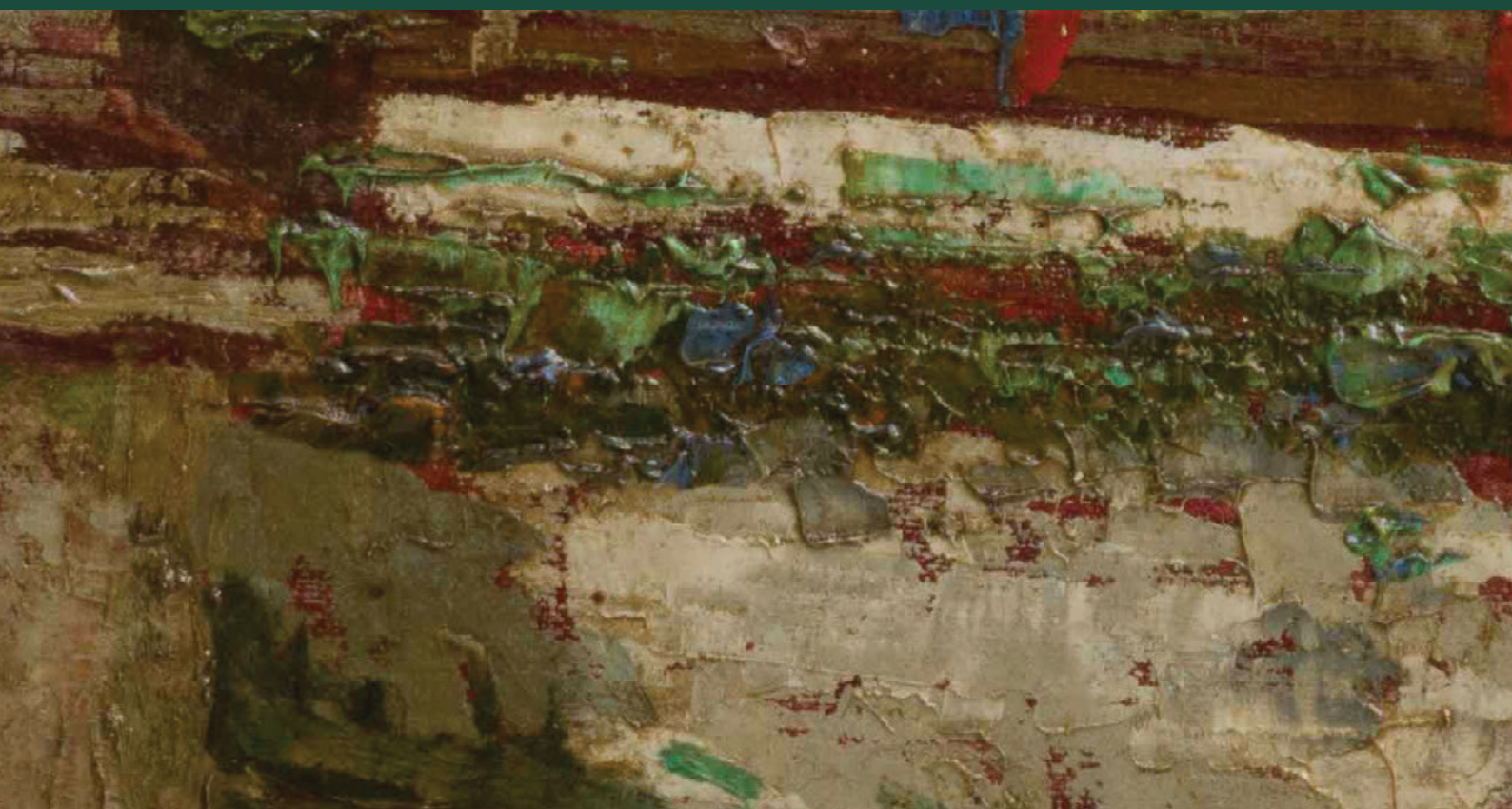
Intesa Sanpaolo Bank Albania guarantees timely and transparent communication with shareholders and the financial community in general, with the intent of providing clear, complete and prompt information on the status of the Bank's implementation of strategies and the results it achieves. The Bank has 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.

ISPBA, as part of Intesa 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 2023
(with independent auditors' report thereon)

Contents

INDEPENDENT AUDITOR'S REPORT	
Statement of financial position	64
Statement of profit or loss and other comprehensive income	67
Statement of changes in equity	68
Statement of changes in equity	69
Statement of cash flows	70
1. Reporting entity	71
2. Basis of accounting	71
3. Basis of measurement	71
4. Presentation of financial statements	71
5. Functional and presentation currency	71
6. Going Concern	71
7. Use of estimates and judgments	71
8. Significant accounting policies	73
9. Financial Risk Management	89
10. Fair value measurement	125
11. Financial Assets and Financial Liabilities	126
12. Maturity analysis of assets and liabilities	128
13. Cash and cash equivalents	129
14. Investment securities	130
15. Property and Equipment	131
16. Right of use of assets and lease liability	132
17. Investment property	134
18. Repossessed assets	135
19. Due to customers	136
20. Deferred Tax	138
21. Share capital and share premium	139
22. Net Interest income	141
23. Net tax expenses	142
24. Commitments and contingencies	143
25. Related parties	144



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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 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2023 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 information included in Intesa Sanpaolo Bank Albania sh.a 2023 Annual Report

Other information consists of the information included in Bank's 2023 Annual Report, prepared in accordance with articles 17 and 19 of the Law no. 25/2018 "For Accounting and Financial Statements", other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 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 Albania
5 April 2024
Tirana, Albania



Mario Vangjel
Certified Auditor

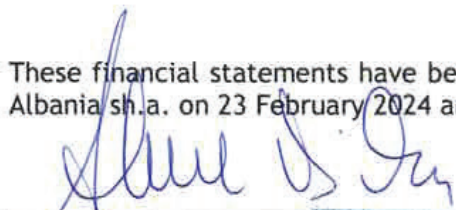
Mario Vangjel

Intesa Sanpaolo Bank Albania sh.a.
Statement of financial position as at 31 December 2023
(in thousands of Lek)

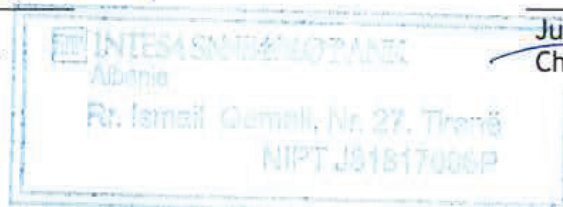
Statement of financial position

	Notes	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	13	15,020,633	25,989,152
Loans and advances to banks	14	43,503,088	34,425,463
Investment securities	15	79,115,681	73,197,467
Loans and advances to customers	16	53,002,247	54,267,232
Current tax assets	36	184,027	154,092
Other assets	21	791,652	602,978
Reposessed assets	22	184,578	275,759
Investment property	20	485,256	502,498
Property and equipment	17	1,850,146	1,886,036
Right-of-use assets	18	436,637	515,150
Intangible assets	19	610,726	604,206
Deferred tax assets	25	125,082	376,559
Total Assets		195,309,753	192,796,592
Liabilities			
Due to banks	23	1,978,853	1,017,783
Due to customers	24	166,183,822	167,115,012
Lease liabilities	18	402,651	495,621
Other liabilities	27	1,539,029	1,322,464
Provisions	26	476,311	481,071
Total Liabilities		170,580,666	170,431,951
Equity			
Share capital	28	5,562,518	5,562,518
Share premium	28	1,383,880	1,383,880
Reserves	29	6,682,512	5,557,574
Retained earnings		11,100,177	9,860,669
Total Equity		24,729,087	22,364,641
Total Liabilities and Equity		195,309,753	192,796,592

These financial statements have been approved by the Board of Directors of Intesa Sanpaolo Bank Albania sh.a. on 23 February 2024 and signed on its behalf by:


Alessandro D'oria
Chief Executive Officer


Julian Cela
Chief Financial Officer



Intesa Sanpaolo Bank Albania sh.a.**Statement of profit or loss and other comprehensive income for the year ended 31 December 2023***(in thousands of Lek)***Statement of profit or loss and other comprehensive income**

	Notes	2023	2022
Interest income	30	6,936,577	4,595,107
Interest expense	30	(988,637)	(907,009)
Net interest income		5,947,940	3,688,098
Fee and commission income	31	1,619,951	1,443,864
Fee and commission expense	31	(651,579)	(488,998)
Net fee and commission income		968,372	954,866
Net other income	32	759,949	738,755
Other operating expenses	33	(469,406)	(486,876)
Operating income		7,206,855	4,894,843
Net impairment loss on financial assets	9 (v)	177,744	(161,956)
Impairment losses/write-backs to other financial activities	26	(1,045)	(28,354)
Write down to NRV of repossessed collaterals	22	(58,647)	(91,421)
Personnel expenses	34	(1,726,534)	(1,512,559)
	17,18		
Depreciation and amortization	19	(493,023)	(483,414)
Amortization of leasehold improvements	21	(23,126)	(17,422)
Impairment of Investment property	20	(17,242)	(31,300)
Other administration expenses	35	(1,375,591)	(1,096,348)
Provisions for risk and expenses	26	(37,403)	45,514
Total expenses		(3,554,867)	(3,377,260)
Net income before taxes		3,651,988	1,517,583
Income tax expense	36	(598,265)	(227,820)
Profit for the year		3,053,723	1,289,763
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of investment securities at FVOCI		1,317,906	(1,437,812)
Related tax		(193,703)	223,813
Items that will not be reclassified to profit or loss			
Change in revaluation of properties		865	-
Related tax		(130)	-
Other comprehensive income for the year, net of tax		1,124,938	(1,213,999)
Total comprehensive income for the year, net of tax		4,178,661	75,764

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes on pages 6 to 79 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 2023

(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 2023	5,562,518	1,383,880	1,825,623	(329,668)	533,669	714,554	2,813,396	9,860,669	22,364,641
Profit for the year	-	-	-	-	-	-	-	3,053,723	3,053,723
Other comprehensive income									
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	1,124,203	-	-	-	-	1,124,203
Change in the Revaluation reserve	-	-	-	-	735	-	-	-	735
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,124,203	735	-	-	-	1,124,938
Transaction with owners, recorded directly in equity									
Dividends to equity holders	-	-	-	-	-	-	-	(1,814,215)	(1,814,215)
Total contributions by and distribution to owners								(1,814,215)	(1,814,215)
Balance at 31 December 2023	5,562,518	1,383,880	1,825,623	794,535	534,404	714,554	2,813,396	11,100,177	24,729,087

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 79 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 2023 (continued)
(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 2022	5,562,518	1,383,880	1,825,623	884,331	533,669	714,554	2,813,396	8,608,728	22,326,699
Profit for the year	-	-	-	-	-	-	-	1,289,763	1,289,763
Other comprehensive income	-	-	-	-	-	-	-	-	-
Change in fair value of debt investment at FVOCI, net of income tax	-	-	-	(1,213,999)	-	-	-	-	(1,213,999)
Change in the Revaluation reserve	-	-	-	-	-	-	-	-	-
Change in the DTA of FTA reserve	-	-	-	-	-	-	-	(37,822)	(37,822)
Total comprehensive income for the year	-	-	-	(1,213,999)	-	-	-	(37,822)	(1,251,821)
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Total contributions by and distribution to owners	-	-	-	-	-	-	-	-	-
Balance at 31 December 2022	5,562,518	1,383,880	1,825,623	(329,668)	533,669	714,554	2,813,396	9,860,669	22,364,641

The Statement of changes in equity is to be read in conjunction with the accompanying notes on pages 6 to 79 forming an integral part of these financial statements.

Intesa Sanpaolo Bank Albania sh.a.**Statement of cash flows for the year ended 31 December 2023***(in thousands of Lek)***Statement of cash flows**

	Notes	2023	2022
Net profit for the year		3,053,723	1,289,763
Adjustments for:			
Depreciation and amortization	17,18,19, 21	516,149	483,414
Impairment of investment property	20	17,242	31,300
Net impairment reversal on loans and advances to customers	9 (v)	(176,699)	190,310
Write down of inventory		58,647	145,694
Net Gain/ (loss) from sale of properties		(5,075)	(147,648)
Net interest income	30	(5,947,940)	(3,688,098)
Tax expense	36	598,265	227,820
Changes in			
Loans and advances to banks		(9,077,033)	(572,393)
Loans and advances to customers		1,462,204	(1,593,213)
Due to banks		942,009	(458,656)
Due to customers		(1,092,428)	(2,324,156)
Inventory and other assets		(237,243)	28,492
Other liabilities and provisions		218,844	(242,633)
Deferred tax		57,644	(136,449)
Interest received		6,825,675	4,726,975
Interest paid		(826,929)	(919,215)
Income taxes paid		(570,556)	(79,625)
Net cash from/(used) in operating activities		(4,183,582)	(3,038,318)
Cash flows from investing activities			
Purchase/ (sale) of property and equipment	17	(164,080)	26,480
Purchase/ (sale) of intangible assets	19	(167,160)	61,758
Acquisitions of investments securities	15	(52,881,709)	(43,418,626)
Sale of investment properties		48,367,295	42,864,454
Net cash used in investing activities		(4,845,654)	(465,934)
Cash flows from financing activities			
Dividend paid to shareholders	28	(1,814,215)	-
Repayment of lease liability	18	(143,740)	(149,894)
Proceeds from borrowing		103,800	-
Repayment of borrowings		(85,209)	-
Net cash used in financing activities		(1,939,364)	(149,894)
Net increase in cash and cash equivalents		(10,968,600)	(3,654,146)
Cash and cash equivalents at 1 January	13	25,989,152	29,643,298
Cash and cash equivalents at 31 December	13	15,020,633	25,989,152

The Statement of cash flows is to be read in conjunction with the accompanying notes on pages 6 to 79 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 2023

*(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, Durrës, Vlora, Elbasan, Fier, Berat, Gjirokastra, Korça, Lushnja, Shkoder, Lezhe, Kavaje (2022: 35 branches and agencies). The Bank had 735 employees as at 31 December 2023 (2022: 701).

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 on 23 February 2024 and approved by the Board of Directors on ????

3. Basis of measurement

The financial statements are prepared on a 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 12.

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. 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 the review are recognized prospectively.

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 9.(a): 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***7. Use of estimates and judgments (continued)****A. Judgements (continued)**

-Note 9.(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 2023 is included in the following notes.

-Note 9.(a): 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 8.(g): determination of the fair value of financial instruments and non-financial assets with significant unobservable inputs

-Note 8.(e).(ii): recognition of deferred tax assets

-Note 8.(r): recognition and measurement of contingencies: key assumption about the likelihood and magnitude of an outflow of resources

-Note 8.(n): net realizable value of inventory: fair value measurement with significant unobservable inputs.

8. 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

(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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(b) Interest (continued)****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 8.(f)(vi).

Presentation

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 amortized cost;
- interest on debt instruments measured at FVOCI;
- Other interest income presented in the statement of profit or loss includes interest income on lease receivables.

Interest expense presented in the statement of profit or loss include interest expense from financial liabilities measured at amortized cost.

(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 Note 8.(c)).

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.

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognized 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(c) Fees and commissions (continued)**

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.

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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(d) Leases (continued)***i. Bank acting as a lessee (continued)*

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.

(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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(e) Income Tax (continued)****(ii) Deferred Tax (continued)**

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 recognized when funds are transferred to the customers' accounts. The Bank recognizes 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.

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.

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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(f) Financial assets and financial liabilities (continued)****(ii) Classification (continued)**

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).

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 8.(p), (q).

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. 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 Note 8.f.(vi)), 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 Note 8 (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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. 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*: are 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 9(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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(f) Financial assets and financial liabilities (continued)****(vi) 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 2023 and that were still subject to enforcement activity was LEK 269,469 thousand (2022: 548,218 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. 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 categorized 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 recognized 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 categorization (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 summarized in the notes 10 and 11.

(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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(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.

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:

	2023	2022
• 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

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. 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:

	2023	2022
• 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) Repossessed collateral

Repossessed collateral comprises 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(q) 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**New and amended standards and interpretations**

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts.

Other than the exceptions outlined below, the Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

As part of this determination, the Bank assessed loan contracts that meet the definition of an insurance contract, but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts. This choice is made at a portfolio level and is irrevocable. The Bank has made an irrevocable choice to apply IFRS 9 to each portfolio of these products.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(t) Changes in accounting policy and disclosures (continued)****New and amended standards and interpretations (continued)**

- **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. 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. The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

- **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 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no impact on the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments had no impact on the financial statements of the Bank.

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules - Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(t) Changes in accounting policy and disclosures (continued)****New and amended standards and interpretations (continued)**

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments) (continued)**

The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is 15%. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Banks's financial statements at 31 December 2023.

Standards issued but not yet effective and not early adopted

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

The following amendments are effective for the periods after 31 December 2023 and are not expected to have a material impact on the Bank.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***8. Significant accounting policies (continued)****(t) Changes in accounting policy and disclosures (continued)****Standards issued but not yet effective and not early adopted (continued)**

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments) (continued)**

Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

9. Financial Risk Management

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

- credit risk
- liquidity risk
- market risk
- 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

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)**

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 banks, 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.

(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 credit 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
<ul style="list-style-type: none"> • Performing exposures without days past due • Performing exposures with less than 30 days past due • Intragroup transactions 	<ul style="list-style-type: none"> • Performing exposures with more than 30 days past due • Forborne performing exposures • Performing exposures showing Early Warning signals. • Low default portfolio based on residual maturity and specific criteria as per group thresholds 	<ul style="list-style-type: none"> • 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

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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-Performing portfolio is classified by analyzing the exposures also based on a set of rules harmonized with 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 financial information relating to the customer.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Detailed analyses are provided monthly to the Problem Assets Committee on the credit quality of customer exposures and specific actions are proposed.
- *Providing advice, guidance and specialist skills* to business units to promote best practice 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 applicable components of statement of financial position:

	Maximum Exposure	
	31 December 2023	31 December 2022
Cash and cash equivalents (excluding cash on hand)	13,263,260	24,469,273
Loans and advances to banks	43,503,088	34,425,463
Investment securities	79,115,681	73,197,467
Loans and advances to customers	53,002,247	54,267,232
Sundry debtors	21,850	26,964
Total on-balance-sheet risk	188,906,126	186,386,399
Undrawn credit commitments	11,183,570	9,659,518
Letters of credit	39,727	17,728
Guarantees in favor of customers	6,274,192	5,779,750
Total credit related commitments	17,497,489	15,456,996
Total Credit Risk Exposure	206,403,615	201,843,395

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

In the commitments are included bank guarantees counter guaranteed by the Parent Bank amounting ALL 1,018 million (2022: ALL 1,006 million) assessed with no credit risk, excluded from the disclosures in the note 9(a)(v) below.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 9(a)(i).

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	49,728,923	3,278,635	-	53,007,558
Past Due	-	-	56,794	56,794
Unlikely to Pay	-	-	1,178,571	1,178,571
Doubtful	-	-	431,531	431,531
Total	49,728,923	3,278,635	1,666,896	54,674,454
Loss allowance	507,095	206,123	958,989	1,672,207
Carrying amount	49,221,828	3,072,512	707,907	53,002,247

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Performing	52,740,481	1,805,415	-	54,545,896
Past Due	-	-	57,266	57,266
Unlikely to Pay	-	-	977,000	977,000
Doubtful	-	-	651,620	651,620
Total	52,740,481	1,805,415	1,685,886	56,231,782
Loss allowance	718,002	364,635	881,913	1,964,550
Carrying amount	52,022,479	1,440,780	803,973	54,267,232

	31 December 2023			
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	16,479,346	69,408	-	16,479,346
Past Due	-	-	13	13
Unlikely to Pay	-	-	8,706	8,706
Doubtful	-	-	4,673	4,673
Total	16,479,346	69,408	13,392	16,562,145
Loss allowance	47,105	6,972	10,616	64,693
Carrying amount	16,432,241	62,435	2,775	16,497,452

	31 December 2022			
	Stage 1	Stage 2	Stage3	Total
Financial guarantee and commitment				
Performing	14,381,664	63,035	-	14,444,699
Past Due	-	-	29	29
Unlikely to Pay	-	-	1,663	1,663
Doubtful	-	-	4,485	4,485
Total	14,381,664	63,035	6,177	14,450,876
Loss allowance	52,112	11,053	6,163	69,328
Carrying amount	14,329,552	51,982	14	14,381,548

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(iii) Credit Quality by class of financial assets (continued)**

PD Range	31 December 2023			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to customers				
0%-0.05%	61,840	-	-	61,840
0.05% -11.70%	49,325,420	2,077,109	-	51,402,529
11.70%-29.50%	341,654	-	-	341,654
29.50%-99.99%	-	1,201,525	-	1,201,525
100%	-	-	1,666,906	1,666,906
Total	49,728,914	3,278,634	1,666,906	54,674,454
Loss allowance	507,095	206,123	958,989	1,672,207
Carrying amount	49,221,819	3,072,511	707,917	53,002,247

PD Range	31 December 2022			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to customers				
0%-0.05%	31,468	-	-	31,468
0.05% -11.70%	52,418,948	962,201	-	53,381,149
11.70%-29.50%	290,065	-	-	290,065
29.50%-99.99%	-	843,214	-	843,214
100%	-	-	1,685,886	1,685,886
Total	52,740,481	1,805,415	1,685,886	56,231,782
Loss allowance	718,002	364,635	881,913	1,964,550
Carrying amount	52,022,479	1,440,780	803,973	54,267,232

	31 December 2023			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to banks*				
Performing	38,773,365	22,604	-	38,795,969
Total	38,773,365	22,604	-	38,795,969
Loss allowance	1,746	16	-	1,762
Carrying amount	38,771,619	22,588	-	38,794,207

Investment securities at FVOCI

Performing	71,832,488	-	-	71,832,488
Total	71,832,488	-	-	71,832,488
Loss allowance**	656,934	-	-	656,934
Carrying amount	71,832,488	-	-	71,832,488

Investment securities at amortized cost

Performing	7,034,323	323,783	-	7,358,106
Total	7,034,323	323,783	-	7,358,106
Loss allowance	73,052	1,861	-	74,913
Carrying amount	6,961,271	321,922	-	7,283,193

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(iii) Credit Quality by class of financial assets (continued)**

	31 December 2022			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to banks*				
Performing	32,996,075	362,475	-	33,358,550
Total	32,996,075	362,475	-	33,358,550
Loss allowance	2,094	29	-	2,123
Carrying amount	32,993,981	362,446	-	33,356,427
Investment securities at FVOCI				
Performing	60,520,517	-	-	60,520,517
Total	60,520,517	-	-	60,520,517
Loss allowance**	630,384	-	-	630,384
Carrying amount	60,520,517	-	-	60,520,517
Investment securities at amortized cost				
Performing	10,802,644	2,018,990	-	12,821,634
Total	10,802,644	2,018,990	-	12,821,634
Loss allowance	141,640	3,044	-	144,684
Carrying amount	10,661,004	2,015,946	-	12,676,950

*Loans and advances to banks include current accounts with banks, money market placements with contractual maturity less than 3 months (see Note 13) and deposits with correspondent banks (see Note 14).

**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 9 (a) (v) 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 2023			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to customers				
Up to 30 days in arrears	49,728,914	2,747,081	651,785	53,127,780
30 to 90 days in arrears	-	531,553	83,221	614,774
More than 90 days	-	-	931,900	931,900
Total	49,728,914	3,278,634	1,666,906	54,674,454
	31 December 2022			
	Stage 1	Stage 2	Stage3	Total
Loans and advances to customers				
Up to 30 days in arrears	52,740,481	1,501,787	460,355	54,702,623
30 to 90 days in arrears	-	303,628	243,952	547,580
More than 90 days in arrears	-	-	981,579	981,579
Total	52,740,481	1,805,415	1,685,886	56,231,782

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 2023 and 31 December 2022. Stage 2 loans to banks and investment securities relates to exposure, note 9 a (v).

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 2023		
	Stage 1	Stage 2	Total
Sovereign			
Rate Aa1 & Aaa	4,393,622	-	4,393,622
FVOCI	4,393,622	-	4,393,622
AC	-	-	-
Rate Baa3 & B1	69,103,774	321,922	69,425,696
FVOCI	62,142,503	-	62,142,503
AC	6,961,271	321,922	7,283,193
	73,497,396	321,922	73,819,318
Financial Institutions			
Rated Aaa	5,296,363	-	5,296,363
FVOCI	5,296,363	-	5,296,363
Total carrying amount	78,793,759	321,922	79,115,681

	31 December 2022		
	Stage 1	Stage 2	Total
Sovereign			
Rate Baa2	66,236,015	-	66,236,015
FVOCI	55,575,011	-	55,575,011
AC	10,661,004	-	10,661,004
Rate B1	2,590,282	2,015,946	4,606,228
FVOCI	2,590,282	-	2,590,282
AC	-	2,015,946	2,015,946
	68,826,297	2,015,946	70,842,243
Financial Institutions			
Rated Aaa	2,355,224	-	2,355,224
FVOCI	2,355,224	-	2,355,224
Total carrying amount	71,181,521	2,015,946	73,197,467

	Loans and advances to Banks		
	31 December 2023		
	Stage 1	Stage 2	Total
Rated Aa3	7,478,870	-	7,478,870
Rated A1	1,565,816	-	1,565,816
Rated A2	3,418,903	-	3,418,903
Rated A3	7,216,411	-	7,216,411
Rated Baa1	3,697,005	-	3,697,005
Rated Baa2	10,718,207	-	10,718,207
Rated Ba2	4,156,030	22,588	4,178,618
Rated Ba1	520,377	-	520,377
	38,771,619	22,588	38,794,207

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)**(a) Credit Risk (continued)****(iii) Credit Quality by class of financial assets (continued)**

Loans and advances to Banks 31 December 2022			
	Stage 1	Stage 2	Total
Rated Aa3	7,325	-	7,325
Rated A1	542,667	-	542,667
Rated A2	3,341,966	-	3,341,966
Rated Baa1	6,305,062	317,549	6,622,611
Rated Baa2	16,922,838	-	16,922,838
Rated Ba1	1,080,588	44,926	1,125,514
Rated Ba2	4,624,911	-	4,624,911
Rated B2	170,717	-	170,717
	32,996,075	362,475	33,358,550

(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 2023 and 2022.

The following presents a summary of the loans and advances to customer portfolio, categorized by stage and disclosed both in gross and net of Expected Credit Losses. Additionally, it indicates whether these loans are backed by collateral or not.

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	49,728,923	49,221,828	41,332,228	41,109,546	8,396,695	8,112,282
Stage 2	3,278,635	3,072,512	3,133,072	2,956,682	145,563	115,830
Stage 3 collective	559,553	296,423	183,672	109,167	375,881	187,256
Stage 3 individual	1,107,343	411,484	1,107,343	411,484	-	-
Total	54,674,454	53,002,247	45,756,315	44,586,879	8,918,139	8,415,368

	Loans and advances to customers		Collateral		No-collateral	
	GBV	NBV	GBV	NBV	GBV	NBV
Stage 1	52,740,481	52,022,479	46,065,720	45,636,577	6,674,761	6,385,902
Stage 2	1,805,415	1,440,780	1,739,332	1,405,928	66,083	34,852
Stage 3 collective	406,686	115,308	183,259	101,708	223,427	13,600
Stage 3 individual	1,279,200	688,665	1,275,739	687,485	3,461	1180
Total	56,231,782	54,267,232	49,264,050	47,831,698	6,967,732	6,435,534

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 of collaterals after the hair cut applied and other security enhancements held against financial assets is shown below:

	Collateral of Loans and advances to customers			
	31 December 2023		31 December 2022	
	Undiscounted	Discounted	Undiscounted	Discounted
Against individually impaired				
Property	2,456,662	812,164	2,904,479	1,027,276
Pledges and guarantees	1,271,620	3,064	649,835	2,229
Cash	-	-	-	-
Debt securities	100,150	-	106,100	-
Other	32,879	-	-	-
Total	3,861,311	815,228	3,660,414	1,029,505
Net carrying amount*		411,484		687,485

*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 2023		31 December 2022	
	Undiscounted	Discounted	Undiscounted	Discounted
Against Collectively Impaired				
Property	82,329,811	33,097,222	87,736,366	38,474,495
Pledges and guarantees	81,453,438	4,088,479	80,461,565	4,981,867
Cash	578,791	547,677	740,757	709,156
Debt securities	1,392,951	445,575	1,615,375	123,896
Other	376,808	-	1,054,343	-
Total	166,131,799	38,178,953	171,608,406	44,289,414
Net carrying amount*		44,175,395		47,144,213

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

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 2023		31 December 2022	
	Carrying amount	Collateral	Carrying amount	Collateral
Stage 1 and Stage 2	52,294,340	166,131,799	53,463,258	171,608,406
Stage 3	707,907	3,861,311	803,973	3,660,414
	53,002,247	169,993,110	54,267,231	175,268,820

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 22.

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 17) 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 2023	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	14,131,142	39,952,847	249,826	131,640
Leasing	27,484	59,228	-	-
Personal loans	118,979	543,598	3,868,016	-
Overdrafts and credit cards	20,899	35,541	338,522	-
Loans to businesses	33,176,366	133,817,469	1,076,324	383,854
Total	47,474,870	174,408,683	5,532,688	515,494

31 December 2022	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	10,836,464	29,658,140	2,372,987	141,933
Leasing	23,332	51,218	-	-
Personal loans	132,915	384,883	2,698,658	-
Overdrafts and credit cards	16,083	23,367	279,867	-
Loans to businesses	36,044,225	139,388,894	2,147,522	1,173,230
Total	47,053,019	169,506,502	7,499,033	1,315,163

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 2023	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	243,037	1,400,436	6,202	-
Financial Leasing	-	-	-	-
Personal loans	550	1,000	198,290	200
Overdrafts and credit cards	868	987	27,592	416
Loans to businesses	1,186,174	3,610,711	4,183	1,039
Total	1,430,629	3,612,698	236,267	1,655

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(iv) Collateral held and other credit enhancements (continued)**

31 December 2022	Over-collateralized portfolio		Under-collateralized portfolio	
	Credit impaired loans	Fair value of collateral	Credit impaired loans	Fair value of collateral
Mortgage Lending	207,485	1,025,331	19,731	-
Financial Leasing	-	-	-	-
Personal loans	-	-	180,065	200
Overdrafts and credit cards	209	228	25,691	457
Loans to businesses	1,250,075	3,408,179	2,630	1,142
Total	1,457,769	4,433,738	228,117	1,799

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 8(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(a)(i).

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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 8 (f)(iv).

Measurement of ECL (Expected Credit Losses)

The key inputs into the measurement of ECL are the term structure of the following variables:

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

Lifetime expected loss covers expected loss for the whole life of the financial instrument 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.

During 2023 the Bank has revised the Loss Given Default model based on the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters derived from historical loss rates observed from defaulted counterparties. For all loans 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

Low Default Portfolio" includes securities and loans to banks used as a category for impairment purposes only under the IFRS 9 rules and 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(v) Amounts arising from ECL (continued)***Low Default Portfolio (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 assess 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. The following criteria are approved for each stage for Bonds residual maturity of the financial instrument.

Stage 1	Stage 2
<ul style="list-style-type: none"> Debt with no significant credit quality deterioration Investment grade debts 	<ul style="list-style-type: none"> Debt with significant increase in PD since origination

Collective assessment are approaches to impairment evaluation based on statistical methods by using credit risk parameters which are estimated based on credit ratings and historical data for homogenous groups of assets.

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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 expected credit losses by class of financial instrument.

Movements in impairment allowance funds for:

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Balances at 1 January 2023	2,094	29	-	2,123
Transfer to Stage 1	(119)	119	-	-
Transfer to Stage 2	3	(3)	-	-
Transfer to Stage 3	-	-	-	-
Financial Assets that have been derecognized	(1,797)	(27)	-	(1,824)
Net remeasurement of loss allowances	(5)	(92)	-	(97)
New financial assets originated or purchased	1,588	-	-	1,588
Foreign exchange and other movements	(18)	(10)	-	(28)
Balances at 31 December 2023	1,746	16	-	1,762
Loans and advances to banks				
Balances at 1 January 2022	4,696	4,298	-	8,994
Transfer to Stage 1	120	(120)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial Assets that have been derecognized	(2,714)	(903)	-	(3,617)
Net remeasurement of loss allowances	(1,585)	(3,013)	-	(4,598)
New financial assets originated or purchased	1,797	-	-	1,797
Foreign exchange and other movements	(220)	(233)	-	(453)
Balances at 31 December 2022	2,094	29	-	2,123
Investment securities at FVOCI				
Balances at 1 January 2023	630,384	-	-	630,384
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(269,386)	-	-	(269,386)
Net remeasurement of loss allowances	(115,859)	-	-	(115,859)
New financial assets originated or purchased	416,908	-	-	416,908
Foreign exchange and other movements	(5,113)	-	-	(5,113)
Balances at 31 December 2023	656,934	-	-	656,934
Investment securities at FVOCI				
Balances at 1 January 2022	576,112	-	-	576,112
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(292,376)	-	-	(292,376)
Net remeasurement of loss allowances	(102,631)	-	-	(102,631)
New financial assets originated or purchased	451,993	-	-	451,993
Foreign exchange and other movements	(2,714)	-	-	(2,714)
Balances at 31 December 2022	630,385	-	-	630,385
Investment securities at amortized cost				
Balances at 1 January 2023	141,640	3,044	-	144,684
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(22,541)	(621)	-	(23,162)
Net remeasurement of loss allowances	(43,789)	(265)	-	(44,054)
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(2,258)	(297)	-	(2,555)
Balances at 31 December 2023	73,052	1,861	-	74,913

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 2022	282,560	4,474	-	287,034
Transfers between Stages	-	-	-	-
Financial Assets that have been derecognized	(82,058)	-	-	(82,058)
Net remeasurement of loss allowances	(57,278)	(1,409)	-	(58,687)
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	(1,584)	(21)	-	(1,605)
Balances at 31 December 2022	141,640	3,044	-	144,684

Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2023	718,002	364,635	881,913	1,964,550
Transfer to Stage 1	190,279	(165,947)	(24,332)	-
Transfer to Stage 2	(45,382)	82,844	(37,462)	-
Transfer to Stage 3	(9,617)	(73,556)	83,173	-
Financial Assets that have been derecognized	(81,566)	(74,707)	(149,586)	(305,859)
Net remeasurement of loss allowances	(442,687)	33,996	76,284	(332,407)
New financial assets originated or purchased	196,735	45,549	254,123	496,407
Write offs	-	-	(112,493)	(112,493)
Foreign exchange and other movements	(18,669)	(6,691)	(12,631)	(37,991)
Balances at 31 December 2023	507,095	206,123	958,989	1,672,207

Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2022	565,290	326,592	1,122,149	2,014,031
Transfer to Stage 1	137,629	(123,452)	(14,177)	-
Transfer to Stage 2	(6,416)	18,135	(11,719)	-
Transfer to Stage 3	(7,532)	(14,012)	21,544	-
Financial Assets that have been derecognized	(56,535)	(6,503)	(100,674)	(163,712)
Net remeasurement of loss allowances	(146,495)	133,834	108,725	96,064
New financial assets originated or purchased	248,806	42,526	32,512	323,844
Write offs	-	-	(269,469)	(269,469)
Foreign exchange and other movements	(16,745)	(12,485)	(6,978)	(36,208)
Balances at 31 December 2022	718,002	364,635	881,913	1,964,550

Loan commitments and financial guarantee contracts	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2023	52,112	11,053	6,163	69,328
Transfer to Stage 1	3,562	(2,168)	(1,394)	-
Transfer to Stage 2	(27)	27	-	-
Transfer to Stage 3	(212)	(18)	230	-
Financial Assets that have been derecognized	(10,784)	(22)	(102)	(10,908)
Net remeasurement of loss allowances	(11,633)	(1,339)	6,567	(6,405)
New financial assets originated or purchased	18,223	52	83	18,358
Foreign exchange and other movements	(4,136)	(613)	(931)	(5,680)
Balances at 31 December 2023	47,105	6,972	10,616	64,693

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 2022	37,561	91	5,523	43,175
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(8,484)	8,784	(300)	-
Transfer to Stage 3	(217)	-	217	-
Financial Assets that have been derecognized	(5,813)	(2)	(151)	(5,966)
Net remeasurement of loss allowances	17,199	9	1,066	18,274
New financial assets originated or purchased	12,967	2,174	68	15,209
Foreign exchange and other movements	(1,101)	(3)	(260)	(1,364)
Balances at 31 December 2022	52,112	11,053	6,163	69,328

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023
(in thousands of Lek, unless otherwise stated)

9. 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.

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Balances at 1 January 2023	32,996,075	362,475	-	33,358,550
Transfer to Stage 1	44,926	(44,926)	-	-
Transfer to Stage 2	(160,996)	160,996	-	-
Financial Assets that have been derecognized	(27,976,714)	(317,549)	-	(28,294,263)
Increase/Decrease of the exposure	1,393,924	(123,805)	-	1,270,119
New financial assets originated or purchased	32,989,924	-	-	32,989,924
Foreign exchange and other movements	(513,774)	(14,587)	-	(528,361)
Balances at 31 December 2023	38,773,365	22,604	-	38,795,969
Loans and advances to banks				
Balances at 1 January 2022	39,122,156	4,738,257	-	43,860,413
Transfer to Stage 2	168,001	(168,001)	-	-
Financial Assets that have been derecognized	(28,387,359)	(1,625,132)	-	(30,012,491)
Increase/Decrease of the exposure	(4,015,487)	(2,331,047)	-	(6,346,534)
New financial assets originated or purchased	27,978,550	-	-	27,978,550
Foreign exchange and other movements	(1,869,786)	(251,602)	-	(2,121,388)
Balances at 31 December 2022	32,996,075	362,475	-	33,358,550
Investment securities at FVOCI				
Balances at 1 January 2023	60,520,517	-	-	60,520,517
Transfer between stages	-	-	-	-
Financial Assets that have been derecognized	(41,698,833)	-	-	(41,698,833)
Increase/Decrease of the exposure	1,291,356	-	-	1,291,356
New financial assets originated or purchased	52,881,709	-	-	52,881,709
Foreign exchange and other movements	(1,162,261)	-	-	(1,162,261)
Balances at 31 December 2023	71,832,488	-	-	71,832,488

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

Investment securities at FVOCI

Balances at 1 January 2022

Transfer between stages

Financial Assets that have been derecognized

Increase/Decrease of the exposure

New financial assets originated or purchased

Foreign exchange and other movements

Balances at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	51,351,170	-	-	51,351,170
	-	-	-	-
	(33,011,437)	-	-	(33,011,437)
	(1,129,473)	-	-	(1,129,473)
	43,418,626	-	-	43,418,626
	(108,369)	-	-	(108,369)
	60,520,517	-	-	60,520,517

Investment securities at amortized cost

Balances at 1 January 2023

Transfer between stages

Financial Assets that have been derecognized

Increase/Decrease of the exposure

New financial assets originated or purchased

Foreign exchange and other movements

Balances at 31 December 2023

	Stage 1	Stage 2	Stage 3	Total
	10,802,644	2,018,990	-	12,821,634
	-	-	-	-
	(3,633,769)	(1,650,634)	-	(5,284,403)
	-	-	-	-
	-	-	-	-
	(134,550)	(44,574)	-	(179,124)
	7,034,324	323,782	-	7,358,106

Investment securities at amortized cost

Balances at 1 January 2022

Transfer between stages

Financial Assets that have been derecognized

Increase/Decrease of the exposure

New financial assets originated or purchased

Foreign exchange and other movements

Balances at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	21,042,803	2,028,440	-	23,071,243
	-	-	-	-
	(10,024,219)	-	-	(10,024,219)
	(129,445)	(19,160)	-	(148,605)
	-	-	-	-
	(86,495)	9,710	-	(76,785)
	10,802,644	2,018,990	-	12,821,634

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

	Stage 1	Stage 2	Stage 3	Total
Loans and Advances to Customers				
Balances at 1 January 2023	52,746,770	1,804,346	1,680,666	56,231,782
Transfer to Stage 1	1,219,882	(1,183,440)	(36,442)	-
Transfer to Stage 2	(2,947,955)	3,015,100	(67,145)	-
Transfer to Stage 3	(345,635)	(201,127)	546,762	-
Financial Assets that have been derecognized	(6,200,418)	(261,064)	(685,195)	(7,146,677)
Increase/Decrease of the exposure	(6,185,523)	(117,564)	(173,398)	(6,476,485)
New financial assets originated or purchased	14,055,742	473,421	449,536	14,978,699
Foreign exchange and other movements	(2,613,940)	(251,037)	(47,888)	(2,912,865)
Balances at 31 December 2023	49,728,923	3,278,635	1,666,896	54,674,454
Loans and Advances to Customers				
Balances at 1 January 2022	50,960,371	1,901,218	2,120,285	54,981,874
Transfer to Stage 1	581,348	(554,578)	(26,770)	-
Transfer to Stage 2	(736,544)	775,056	(38,512)	-
Transfer to Stage 3	(274,448)	(41,144)	315,592	-
Financial Assets that have been derecognized	(3,265,401)	(15,777)	(630,317)	(3,911,495)
Increase/Decrease of the exposure	(4,833,147)	(305,325)	(176,498)	(5,314,970)
New financial assets originated or purchased	11,962,961	129,594	140,995	12,233,550
Foreign exchange and other movements	(1,648,370)	(84,698)	(24,109)	(1,757,177)
Balances at 31 December 2022	52,746,770	1,804,346	1,680,666	56,231,782

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(a) Credit Risk (continued)

Gross amount (continued)

OFF BALANCE SHEET

Balances at 1 January 2023

	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 1	14,381,663	63,035	6,178	14,450,876
Transfer to Stage 2	13,048	(11,654)	(1,394)	-
Transfer to Stage 3	(14,153)	14,153	-	-
Financial Assets that have been derecognized	(14,594)	(46)	14,640	-
Increase/Decrease of the exposure	(3,871,770)	(169)	(116)	(3,872,055)
New financial assets originated or purchased	897,700	8,080	(4,433)	901,347
Foreign exchange and other movements	5,092,942	188	89	5,093,219
	(5,490)	(4,179)	(1,572)	(11,241)
Balances at 31 December 2023	16,479,346	69,408	13,392	16,562,146

OFF BALANCE SHEET

Balances at 1 January 2022

	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 1	9,842,804	1,043	5,838	9,849,685
Transfer to Stage 2	30,747	(30,747)	-	-
Transfer to Stage 3	(46,572)	51,367	(4,795)	-
Financial Assets that have been derecognized	-	-	-	-
Increase/Decrease of the exposure	(1,395,856)	(37)	(159)	(1,396,052)
New financial assets originated or purchased	3,292,776	29,781	5,485	3,328,042
Foreign exchange and other movements	2,919,585	11,668	69	2,931,322
	(261,820)	(40)	(261)	(262,121)
Balances at 31 December 2022	14,381,664	63,035	6,177	14,450,876

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(v) Amounts arising from ECL (continued)**

The following table provides for the year 2023 and 2022 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	(1,921)	(638,265)	(385,245)	(67,216)	(1,092,647)
New financial assets originated or purchased	1,588	496,407	416,908	-	914,903
Balances at 31 December 2023	(333)	(141,858)	31,663	(67,216)	(177,744)
	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	(8,216)	(69,210)	(395,007)	(139,336)	(613,178)
New financial assets originated or purchased	1,797	323,844	451,993	-	777,634
Balances at 31 December 2022	(6,419)	254,634	56,986	(139,336)	164,456

(vi) Write-off policy

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

(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:

Concentration by sector	Net Loans and advances to customers	
	31 December 2023	31 December 2022
Services	13,322,844	18,402,542
Wholesale	9,661,297	9,236,584
Manufacturing	6,473,531	6,779,735
Construction	3,077,847	2,394,284
Real Estate	420,301	488,761
Other	1,388,641	943,091
Corporate total	34,344,461	38,244,997
Mortgage	14,430,425	13,138,593
Consumer	4,227,361	2,883,642
Retail total	18,657,786	16,022,235
Carrying amount	53,002,247	54,267,232

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(vii) Concentration of Credit Risk (continued)**

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

Concentration by sector	Loans and advances to banks	
	31 December 2023	31 December 2022
Related parties bank	10,708,000	9,777,889
Other EU countries and North America	27,565,829	22,609,759
Local banks	520,378	970,901
Carrying amount	38,794,207	33,358,549

Concentration by sector	Investment securities	
	31 December 2023	31 December 2022
Sovereign (Note 16)	73,819,258	70,842,243
Other Financial Institutions	5,296,423	2,355,224
Carrying amount	79,115,681	73,197,467

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

(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 counterparty 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, within the "ISBA Rules for the management and maintenance of the FI-s limits" updated version. The latter is approved in the ISBA CRGC on 21 November 2023 and in ISBA BOD date 19 December 2023.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(a) Credit Risk (continued)****(viii) Settlement risk (continued)**

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 Asset Liability Risk Committee and Board of Directors. The Treasury and ALM Department is responsible for liquidity management and the Risk Management Department 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 ($LCR \geq 110\%$).
- **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 ($NSFR \geq 102.5\%$).

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 take 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.

In its Liquidity Guideline and Implementing Procedure, the bank measures and monitors the Survival Period Indicator, an indicator which measures the first day in which the Net Liquidity Position of a Bank turns negative, namely when there is no more additional liquidity to cover the simulated net liquidity outflows. The Net Liquidity Position, on a certain date, amounts to the difference between the available Liquidity Reserves (including the related variations arising from secured positions) and the net outflows expected until that date. The monitoring of the Survival Period indicators represents an important early warning system regarding the potential deterioration of the LCR indicator. An internal limit is defined at individual level. The bank should monitor that, under the stressed condition, the Net Liquidity Position is always positive at least up to 90 days.

The short-term indicator (LCR) shows a very well level of liquidity of the bank of 412.33% as at 31 December 2023, under a liquidity stress scenario.

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

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(b) Liquidity Risk (continued)****(i) Management of liquidity risk (continued)**

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:

- **Bank of Albania Liquidity Ratio** in total, in foreign currency and in local currency, which is used to measure the Bank's compliance with the liquidity limits established by the Central Bank of Albania, 20% for all currencies and foreign currency and above 15% for the local currency.
- **Bank of Albania 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 ($LCR \geq 100\%$ in Total currencies and $LCR \geq 80\%$ in foreign significant currencies). For each significant single currency $LCR \geq 80\%$.
- **Bank of Albania Net Stable Funding Ratio (NSFR)** has the purpose of guaranteeing 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. The bank reports on a quarterly basis to the Bank of Albania, the net stable funding ratio on an individual basis for total net stable funding ratio and for total significant currencies, starting from January 2023 ($NSFR \geq 100\%$ in Total currencies, $NSFR \geq 70\%$ in foreign significant currencies until 31 December 2023). From January 2024 the limit for the the foreign significant currencies shall be 80%..

All the above liquidity ratios are periodically monitored by the ISBA Bank' Enterprise, Market and Financial Risk office with reference to Group internal limits and guidelines and to Central Bank of Albania requirements.

During the year 2023, the bank has been within the internal and regulatory limits.

(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 2023 and 2022, the Bank has been within the internal and regulatory limits.

Intesa Sanpaolo Bank Albania sh. a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 FVOCI of the HQLA securities portfolio is classified as less than 1 months since they are traded on active markets. The HQLA securities are classified as per remaining maturity, since these 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 guaranties. 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 2023					
	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets (Cash Flow IN)	102,566,938	7,708,801	28,401,348	44,695,752	18,843,136	202,215,975
Cash on hand	1,737,549	-	-	-	-	1,737,549
Minimum reserve requirements	-	-	-	16,451,614	-	16,451,614
Advances to banks	5,810,650	-	-	-	-	5,810,650
Investment Securities at FVOCI	73,690,060	-	-	-	-	73,690,060
Investment Securities at AC	61,884	496,575	2,665,901	1,769,332	394,781	5,388,473
Loans to banks	6,749,941	5,718,223	18,876,185	2,205,657	-	33,550,006
Loans and advances to customers (gross performing loans)	14,516,854	1,494,003	6,859,262	24,269,149	18,448,355	65,587,623
31 December 2023	(119,320,239)	(5,883,310)	(24,279,724)	(20,567,326)	(127,086)	(170,177,685)
Liabilities (Cash flow OUT)						
Deposits from banks and customers-						
Current accounts	(115,180,982)	-	-	-	-	(115,180,982)
Current accounts with banks	(225,430)	-	-	-	-	(225,430)
Current accounts with customers	(114,955,552)	-	-	-	-	(114,955,552)
Deposits from banks	(1,398,144)	-	-	-	-	(1,398,144)
Deposits from customers- Time deposits	(2,741,113)	(5,883,310)	(24,279,724)	(20,567,326)	(127,086)	(53,598,559)
Total gap on-balance sheet	(16,753,301)	1,825,491	4,121,624	24,128,426	18,716,050	32,038,290
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off- Balance sheet (Cash flow out)	(518,390)	-	-	-	-	(518,390)
Total gap off-balance sheet	(518,390)	-	-	-	-	(518,390)
Total gap 31 December 2023	(17,271,691)	1,825,491	4,121,624	24,128,426	18,716,050	31,519,900
Cumulated gap 31 December 2023	(17,271,691)	(15,446,200)	(11,324,576)	12,803,850	31,519,900	

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 is not expected in the short term.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(b) Liquidity Risk (continued)

	31 December 2022					
Assets (Cash Flow IN)	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash on hand	104,869,778	5,023,115	24,601,610	50,126,218	19,699,353	204,320,074
Minimum reserve requirements	1,521,159	-	-	-	-	1,521,159
Advances to banks	-	-	-	17,866,771	-	17,866,771
Investment Securities at FVOCI	5,389,546	-	-	-	-	5,389,546
Investment Securities at AC	64,229,446	-	-	-	-	64,229,446
Loans to banks	98,742	387,122	4,330,455	7,466,383	1,395,151	13,677,853
Loans and advances to customers (gross performing loans)	11,981,440	3,030,321	13,096,039	-	-	28,107,800
	21,649,445	1,605,672	7,175,116	24,793,064	18,304,202	73,527,499
Liabilities (Cash flow OUT)	(123,322,294)	(7,949,436)	(24,686,331)	(13,136,173)	(189,424)	(169,283,658)
Deposits from banks and customers- Current accounts	(120,164,731)	-	-	-	-	(120,164,731)
Current accounts with banks	(102,587)	-	-	-	-	(102,587)
Current accounts with customers	(120,062,144)	-	-	-	-	(120,062,144)
Deposits from banks	(914,075)	-	-	-	-	(914,075)
Deposits from customers- Time deposits	(2,243,488)	(7,949,436)	(24,686,331)	(13,136,173)	(189,424)	(48,204,852)
Total gap on-balance sheet	(18,452,516)	(2,926,321)	(84,721)	36,990,045	19,509,929	35,036,416
Off-Balance sheet (Cash flow in)	-	-	-	-	-	-
Off-Balance sheet (Cash flow out)	(500,115)	-	-	-	-	(500,115)
Total gap off-balance sheet	(500,115)	-	-	-	-	(500,115)
Total gap 31 December 2022	(18,952,631)	(2,926,321)	(84,721)	36,990,045	19,509,929	34,536,301
Cumulated gap 31 December 2022	(18,952,631)	(21,878,952)	(21,963,673)	15,026,372	34,536,301	

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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.

	1 Month	1-3 Months	3-12 Months	1-5 Years	>5 Years	Total
31 December 2023						
Commitments	11,183,570	-	-	-	-	11,183,570
Guarantees	6,313,919	-	-	-	-	6,313,919
31 December 2022						
Commitments	9,659,518	-	-	-	-	9,659,518
Guarantees	6,291,919	-	-	-	-	6,291,919

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 37 Commitment and contingencies is as follows:

	31 December 2023	31 December 2022
Commitments	11,183,570	9,659,518
Un-drawn credit facilities	11,183,570	9,659,518
Guarantees	6,313,919	5,797,477
Letters of credit	39,727	17,728
Guarantees in favor of customers	6,274,192	5,779,750

(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 April 2020, the Bank is not allowed to invest in new 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. These limits are internally imposed by the Group.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(b) Liquidity Risk (continued)****Management of market risks (continued)**

Intesa Sanpaolo Bank Albania – Issuer Limits (Nominal amounts, Euro mln Equivalent)					
	TYPE OF ISSUER	Tot. Max Limit on the Overall Financial Portfolio (Nominal Value)	Total Maximum Limit by Business Model (Nominal Value)		Single Issuer Maximum Limit on the Overall Financial Portfolio (Nominal Value)
			HTC	HTC S	
i)	Government T-Bills and T-Bonds issued by Albania Government and denominated in local currency.	None	No new purchases	None	None
ii)	Government securities issued by Albania Government denominated in foreign currency.	The lower between Regulatory Limit ¹ and EUR 42 mln	No new purchases	The lower between Regulatory Limit ¹ and EUR 42 mln	The lower between Regulatory Limit ¹ and EUR 42 mln
iii)	-Foreign Government securities issued by G7 countries (exempt-Japan), -Securities issued by Government Agencies or Government Development Banks, with rating Aaa/AAA, -Securities issued by Supranationals with rating Aaa/AAA, denominated in currencies of the G7 members (exempt-JPY) – where the credit approval procedure is fulfilled for non-Government securities.	None	No new purchases	None	100
iv)	Foreign Government securities – issued by EU countries not included in point iii) and rated at least A3/A-, denominated in currencies of G7 members (exempt-JPY).	50	0	50	15
v)	Covered Bonds: - issued by Financial Institutions provided that the covered bond is rated at least Aa3/AA-, - issued by Financial Institutions of the parent company's country with issuer's rating not below the country's rating, denominated in currencies of the G7 members (exempt-JPY), where the credit approval procedure is fulfilled.	60	0	60	10 ²

1. Regulatory limit: sum of each Albania security in FC x respective Risk Weight, as defined in the regulation < 20% of the Regulatory Capital.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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.
- With reference to item iii) of the Table, investments in Italian government securities are subject to credit sensitivity limits (CR01) approved by GFRC.
- 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, the last approved in ISBA BOD 19 December 2023, are:

HTCS Securities Portfolio Limits	Limit	Currency
HTCS Early Warning VaR	2,200,000	EUR
HTCS Early Warning Stressed VaR	2,500,000	EUR

These above limits are communicated officially from ISP Chief Risk Officer Governance Area/ Market and Financial Risk Management Head Office Department/ Head of Market Risk Policies and Governance on 22nd November 2023, after the approval in the Group Financial Risk Committee on dt 22 Nov 2023.

(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 Enterprise, Market and Financial Office/ Risk Management Department 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).

The limit assigned to Intesa Sanpaolo Bank Albania, the last approved in ISBA BOD 19 December 2023 are:

- the introduction of the **Global Transaction FX risk VAR** monitoring within the Trading Book, ensuring the consistency with the current overall ISBD limits according to the RAF 2023 defined by the BoD at the beginning of the year. For ISBA, since no trading activity is in place, the limit refers to the FX position on Banking book.
 - EW Trading Book (Fx global transactional risk) VaR: 200.000 EUR
 - EW Trading Book SVaR (Fx global transactional risk): 150.000 EUR

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. Financial Risk Management (continued)****(b) Market Risk (continued)****Management of market risks (continued)**

The Global Transaction FX position VaR is computed and monitored by HO Financial and Market Risks Head Office Department, according to ISP Group methodology, with the same metrics adopted for all the legal entities of the Group. The VaR limit is set by the Group Financial Risk Committee

With reference to the FX global transactional risk VaR calculation methodology, it is basically the same already used for the HTCS VaR calculation: 99° VaR calculated using the Historical Approach with exponential weights assigned to the latest 250 scenarios (1 year lookback period).

For the FX global transactional risk SVaR, the steps for its calculation are basically the same described for the VaR, its calculation to each scenario is assigned the same probability of realization; as such the 99° percentile of the SVaR PL distribution (the SVaR Scenario) is always going to be the third worst observation.

Both calculations will be performed from HO Financial and Market Risks Head Office Department for all foreign currencies, based on the Open Currency Positions provided on daily basis by the Local Risk Management structure (Enterprise, Market and Financial risk office), using ISP Risk Watch calculation engine, and will be sent on daily basis to Local risk (EMFR office/Risk management department). After the above limits, the measuring and monitoring processes, will enter in force, the FX VaR at local level will not be calculated anymore.

- **The introduction of the Global VaR and SVaR limits (HTCS portfolio + Trading FX global transactional risk) (NEW limits):**
 - EW Global VaR: 2.200.000 EUR
 - Soft Limit Global VaR: 2.400.000 EUR
 - EW Global SVaR: 2.650.000 EUR
 - Soft Limit Global SVaR: 3.500.000 EUR

The calculation and monitoring of the Global VaR/SVaR EW and Soft limits (which include the FX Global transactional risk + HTCS portfolio risk of ISP Albania - banking book since no trading activity is allowed) are performed by HO Financial and Market Risks Head Office Department, and will be sent on weekly basis to Local risk (EMFR office/Risk management department)

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023
(in thousands of Lek, unless otherwise stated)

9. 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	946,785	3,910,813	8,554,083	1,608,953	15,020,634
Loans and advances to banks	3,505,104	1,830,838	37,678,539	488,607	43,503,088
Investment securities at FVOCI	58,212,118	2,199,040	11,421,330	-	71,832,488
Investment securities at amortized cost	5,615,670	321,922	1,345,601	-	7,283,193
Loans and advances to customers	23,831,398	877,842	28,292,834	173	53,002,247
Property and equipment's	1,850,146	-	-	-	1,850,146
Right of use	436,637	-	-	-	436,637
Intangible assets	610,726	-	-	-	610,726
Investment Property	485,256	-	-	-	485,256
Deferred tax assets	125,082	-	-	-	125,082
Current tax assets	184,578	-	-	-	184,578
Other assets	640,882	20,953	314,274	121	976,230
Total Assets (1)	96,444,382	9,161,408	87,606,661	2,097,854	195,310,305
Liabilities					
Due to Banks	1,785,593	-	183,661	9,599	1,978,853
Due to customers	68,924,858	9,297,041	85,890,074	2,071,849	166,183,822
Provisions	293,132	27,688	155,491	-	476,311
Lease liabilities	22,787	-	379,864	-	402,651
Other liabilities	1,173,877	34,049	321,494	9,609	1,539,029
Net Equity	24,783,854	27,077	(81,844)	-	24,729,087
Total Liabilities (2)	96,984,101	9,385,855	86,848,740	2,091,057	195,309,753
Net FX Position at 31 December 2023 (1)-(2)	(540,270)	(224,447)	757,921	6,796	-
Off balance sheet Assets	25,187,019	5,350,779	131,252,860	954,020	162,744,677
Off balance sheet Liabilities	24,554,754	5,114,635	132,123,923	951,366	162,744,677
Net Off BSH FX Position at 31 December 2023	632,265	236,144	(871,063)	2,654	-
Total Net FX Position at 31 December 2023	91,995	11,697	(113,142)	9,450	-
Balance sheet Assets as at 31 December 2022	18,474,906	4,449,024	146,638,174	441,050	170,003,154
Balance sheet Liabilities as at 31 December 2022	18,472,271	4,176,293	146,907,834	446,756	170,003,154
Net Off BSH FX Position at 31 December 2022	2,635	272,731	(269,660)	(5,706)	-
Total Net FX Position at 31 December 2022	571,555	(21,443)	(556,657)	6,545	-

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 fix interest rate the majority of the asset side is made of Albanian Securities and for certain non-Albanian securities investment, which have fixed coupon rates between 3.38% - 5.38% for USD denominated securities (2022:3.36% - 6.69%) and between 0% - 5.9% for EUR denominated securities (2022: 1.06 - 4.13%).

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 Board of Directors on 26 October 2023 and approved by ALCO meeting on 24 October 2023, based on the latest versions of IRRBB Guidelines issued by Parent Company in 2023.

These documents implement the latest regulatory provisions, recently defined in the Guidelines issued by the Parent Company on March 2023, 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 2023 a value of ALL -167.18 million (for +100 basis points) compared to the end of year December 2022 ALL -248 million.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 2023 and 2022.

Shift sensitivity				
31-Dec-23	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	11,828/(10,203)	118,827/(123,591)	(106,999)/113,388
USD	+100 b.p. / -100 b.p.	(57,438)/61,232	(18,052)/(14,206)	(39,386)/75,439
Other (GBP & CHF)	+100 b.p. / -100 b.p.	1,156/(1,181)	1,156/(1,181)	0/0
31-Dec-22	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p.	(14,229)/18,392	127,219/(131,204)	(141,447)/149,595
USD	+100 b.p. / -100 b.p.	(39,989)/43,665	(39,989)/43,665	0/0
Other (GBP & CHF)	+100 b.p. / -100 b.p.	923/(939)	923/(939)	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 2023.

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 2023 a value of Lek 317.56 million (for +50 basis points) and a value of Lek -309.86 million (for -50 basis points), compared to December 2022 Lek 330 million (for +50 basis points) and a value of Lek -322 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 updated based on the latest historical data of ISBA sight position (sight loans and sight deposits up to July 2019) by the HO above structure for what concern Net Interest Income (NII) while, for what concern the potential changes to economic value of equity (EVE), is developed for the first-time in order to take into consideration: the positive trend in stocks, the periodic adjustments to the parameters used and various methodological refinements. The updated parameters result for NII and the new ones for EVE representation are approved in GFRC November 2019 and ISBA BOD August 2020. Both are fully implemented in August 2022 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 2023 being 7.1% of the Bank's regulatory capital (31 December 2022: 6.3%).

The Bank has been within the limits in accordance with Bank of Albania regulation and the internal regulation during the year 2023.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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-23	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	7,331,622	28,928,823	21,081,842	-	-	-	57,342,287
Fix rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	5,518,266	7,552,052	5,841,580	5,099,307	2,121,170	1,844,597	27,976,972
Fix rate	172,995	6,872,052	21,027,152	510,996	383,281	489,653	29,456,129
Floating rate	-	20,566,164	40,518,839	11,527,967	6,654,102	1,297,500	80,564,571
Financial investments	-	2,056,989	1,120	-	-	-	2,058,109
Fix rate	122,916	54,969	461,333	55,134	49,083	62,916	806,351.10
Floating rate	1,737,549	-	-	-	-	-	1,737,549.15
Other financial assets	-	-	-	-	-	-	-
Total financial assets (interest-bearing)	14,883,348	66,031,049	88,931,865	17,193,404	9,207,636	3,694,666	199,941,968
Liabilities							
Deposits to banks	(590,975)	(1,222,655)	(40,875)	-	(130,019)	-	(1,984,525)
Fix rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Due to customers	(76,652,300)	(20,028,578)	(40,020,122)	(20,563,365)	(10,861,880)	(127,081)	(168,253,325)
Fix rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Other liabilities	(387,525)	(59,460)	(510,669)	(244,951)	(157,405)	(44,864)	(1,404,872)
Fix rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)	(77,630,800)	(21,310,693)	(40,571,665)	(20,808,315)	(11,149,304)	(171,945)	(171,642,722)
Interest sensitivity gap	(62,747,452)	44,720,356	48,360,200	(3,614,911)	(1,941,668)	3,522,721	28,299,246

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) which are positioned in time buckets as per behavioral coefficients values, results of the model developed from Parent company based ISBA historical data. The model results, after the approval, are implemented in August 2022. The repricing 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 repricing gap, not considered interest-bearing.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

9. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Exposure to Interest Rate risk (continued)

Assets	31-Dec-22	O/N	0-3 months	3-18 months	18m - 3 years	3 - 5 years	>5 years	Total
Interest rate type								
Loans and advances to banks	Fix rate	13,784,902	32,193,091	13,096,039	-	-	-	59,074,033
	Floating rate	-	-	-	-	-	-	-
Loans and advances to customers	Fix rate	5,554,329	7,474,431	4,477,641	3,063,900	1,496,764	1,537,772	23,604,836
	Floating rate	261,657	7,227,226	25,706,861	629,139	500,404	668,189	34,993,476
Financial investments	Fix rate	-	14,013,561	41,689,425	10,349,912	7,456,039	1,412,580	74,921,517
	Floating rate	-	1,103,549	1,496,342	-	-	-	2,599,891
Other financial assets	Fix rate	115,096	44,384	446,432	55,940	151,351	81,917	895,120
	Floating rate	1,521,159	-	-	-	-	-	1,521,159
Total financial assets (interest-bearing)		21,237,143	62,056,242	86,912,740	14,098,891	9,604,558	3,700,458	197,610,032
Liabilities								
Deposits to banks	Fix rate	(102,587)	(788,355)	(125,719)	-	-	-	(1,016,662)
	Floating rate	-	-	-	-	-	-	-
Due to customers	Fix rate	(78,206,891)	(22,529,405)	(43,758,636)	(15,191,171)	(8,382,102)	(189,424)	(168,257,629)
	Floating rate	-	-	-	-	-	-	-
Other liabilities	Fix rate	(727,355)	(75,572)	(600,677)	(268,621)	(182,814)	(57,182)	(1,912,221)
	Floating rate	-	-	-	-	-	-	-
Total financial liabilities (interest-bearing)		(79,036,833)	(23,393,332)	(44,485,032)	(15,459,792)	(8,564,916)	(246,606)	(171,186,511)
Interest sensitivity gap		(57,799,690)	38,662,910	42,427,708	(1,360,901)	1,039,642	3,453,852	26,423,521

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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. Bank has acknowledged the ISP guideline for operational risk management and will implement the local version within 2024.

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 basis 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 26 October 2023. 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***9. 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 2022 the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2023 is calculated 27.481% (2022: 26.45%)

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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

10. 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-23				31-Dec-22			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Date of valuation									
Assets measured at fair value:									
Investment securities at FVOCI	12/31/2023	71,832,488	12,172,094	59,648,070	12,324	60,520,517	6,431,205	54,076,282	13,030
Property and equipment (buildings)	12/31/2023	1,210,306	-	-	1,210,306	1,256,998	-	-	1,256,998
Investment property	12/31/2023	485,256	-	-	485,256	502,498	-	-	502,498
		73,528,050	12,172,094	59,648,070	1,707,886	62,280,013	6,431,205	54,076,282	1,772,526

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***11. Financial Assets and Financial Liabilities****(a) Fair values of financial assets and financial liabilities**

		Carrying Amount				Fair Value			
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
31 December 2023									
Loans and advances to banks	-	-	38,795,969	-	38,795,969	-	-	38,795,969	38,795,969
Investments securities at amortized cost	7,283,193	-	-	-	7,283,193	1,667,522	5,615,671	-	7,283,193
Investment securities at FVOCI	-	71,832,488	-	-	71,832,488	12,172,094	59,648,070	12,324	71,832,488
Total	7,283,193	71,832,488	38,795,969	-	117,911,650	13,839,616	65,263,741	38,808,293	117,911,650
Deposits from customers	-	-	-	166,183,822	166,183,822	-	-	166,183,822	166,183,822
Total	-	-	-	166,183,822	166,183,822	-	-	166,183,822	166,183,822
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
31 December 2022									
Loans and advances to banks	-	-	33,225,482	-	33,225,482	-	-	33,225,482	33,225,482
Investments securities at amortized cost	12,676,950	-	-	-	12,676,950	3,594,231	9,354,627	-	12,948,858
Investment securities at FVOCI	-	60,520,517	-	-	60,520,517	6,431,205	54,076,282	13,030	60,520,517
Total	12,676,950	60,520,517	33,225,482	-	106,422,949	10,025,436	63,430,909	33,238,512	106,694,857
Deposits from customers	-	-	-	167,115,012	167,115,012	-	-	166,721,524	166,721,524
Total	-	-	-	167,115,012	167,115,012	-	-	166,721,524	166,721,524

The fair value of HTC Albanian Government 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 to 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***11. Financial Assets and Financial Liabilities (continued)****(b) Classification of financial assets and financial liabilities**

See accounting policies in Notes 9 (f)(ii).

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 2023				
Financial Assets				
Cash and cash equivalents	13	15,020,633	-	15,020,633
Loans and advances to banks	14	43,503,088	-	43,503,088
Investment securities	15	7,283,193	71,832,488	79,115,681
Loans and advances to customers	16	53,002,247	-	53,002,247
Total		118,809,161	71,832,488	190,641,649
Financial Liabilities				
Due to banks	23	1,978,853	-	1,978,853
Due to customers	24	166,183,822	-	166,183,822
Total		168,162,675	-	168,162,675
31 December 2022				
Financial Assets				
Cash and cash equivalents	13	27,189,133	-	27,189,133
Loans and advances to banks	14	33,225,482	-	33,225,482
Investments securities	15	12,676,950	60,520,517	73,197,467
Loans and advances to customers	16	54,267,232	-	54,267,232
Total		127,358,797	60,520,517	187,879,314
Financial Liabilities				
Due to banks	23	1,017,783	-	1,017,783
Due to customers	24	167,115,012	-	167,115,012
Total		168,132,795	-	168,132,795

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***12. 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 2023		
Assets	Note	Within 12 months	After 12 months	Total
Cash and cash equivalents	13	15,020,633	-	15,020,633
Loans and advances to banks	14	43,503,088	-	43,503,088
Investment securities	15	53,697,528	25,418,153	79,115,681
Loans and advances to customers	16	12,750,467	40,251,780	53,002,247
Current tax assets		184,027	-	184,027
Property and equipment	17	-	1,850,146	1,850,146
Right- of use	18	-	436,637	436,637
Intangible assets	19	-	610,726	610,726
Investment property	20	-	485,256	485,256
Inventory and other assets	21,22	-	976,230	976,230
Deferred tax assets	25	-	125,082	125,082
Total Assets		125,155,743	70,154,010	195,309,753
Liabilities				
Due to banks	23	1,978,853	-	1,978,853
Due to customers	24	140,077,444	26,106,378	166,183,822
Lease liability	18	-	402,651	402,651
Other liabilities	27	1,456,200	82,829	1,539,029
Provisions	26	-	476,311	476,311
Total Equity		-	24,729,087	24,729,087
Total Liabilities and Equity		143,512,497	51,797,256	195,309,753
31December 2022				
Assets	Note	Within 12 months	After 12 months	Total
Cash and cash equivalents	13	25,989,152	-	25,989,152
Loans and advances to banks	14	34,425,463	-	34,425,463
Investment securities	15	41,348,950	31,848,517	73,197,467
Loans and advances to customers	16	13,669,727	40,597,505	54,267,232
Current tax assets		154,092	-	154,092
Property and equipment	17	-	1,886,036	1,886,036
Right- of use	18	-	515,150	515,150
Intangible assets	19	-	604,206	604,206
Investment property	20	-	502,498	502,498
Inventory and other assets	21,22	602,978	275,759	878,737
Deferred tax assets	25	-	376,559	376,559
Total Assets		116,190,362	76,606,230	192,796,592
Liabilities				
Due to banks	23	1,017,783	-	1,017,783
Due to customers	24	144,495,170	22,619,842	167,115,012
Lease liability	18	-	495,621	495,621
Other liabilities	27	-	1,322,464	1,322,464
Provisions	26	-	481,071	481,071
Total Equity		-	22,364,641	22,364,641
Total Liabilities and Equity		145,512,953	47,283,639	192,796,592

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***13. Cash and cash equivalents**

Cash and cash equivalents as at 31 December 2023 and 31 December 2022 are detailed as follows:

	31 December 2023	31 December 2022
Cash on hand	1,757,373	1,519,879
Current accounts with banks	5,806,171	5,381,970
Unrestricted balances with Bank of Albania	1,520,825	7,695,379
Money market placements	5,936,739	11,392,480
Less impairment loss allowance	(475)	(556)
Total	15,020,633	25,989,152

14. Loans and advances to banks

Loans and advances to banks as at 31 December 2023 and 31 December 2022 are composed as follows:

	31 December 2023	31 December 2022
Compulsory reserve with Bank of Albania	16,451,316	17,842,930
Deposits with correspondent banks	27,053,059	16,584,100
Less impairment loss allowance	(1,287)	(1,567)
Total	43,503,088	34,425,463

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 (See note 9.(b).(ii)).

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 3.25% for 31 December 2023 (31 December 2022: 2.75 %). The remuneration interest rate of the obligatory reserve in EUR is equal to 0% for EUR for 31 December 2023 (31 December 2022: 0 %). Deposits with banks comprise money market placements with an original maturity of over three months, which are not part of cash and equivalents.

15. Investment securities

	31 December 2023	31 December 2022
Investment securities measured at FVOCI-debt instruments	71,832,488	60,520,517
Investment securities measured at amortized cost- debt instruments	7,283,193	12,676,950
Total	79,115,681	73,197,467

Investment securities measured at FVOCI as at 31 December 2023 and 31 December 2022 can be detailed as follows:

	31 December 2023	31 December 2022
Sovereign issuers		
Republic of Albania	61,137,482	55,580,294
Unlisted	59,660,527	54,089,312
Listed	1,476,955	1,490,982
EU member states	4,487,023	2,591,127
Listed	4,487,023	2,591,127
Other Financial Institutions	5,296,423	2,349,096
Listed	5,296,423	2,349,096
USA	911,560	-
Listed	911,560	-
Total	71,832,488	60,520,517

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***15. Investment securities (continued)**

Investment securities measured at amortized cost as at 31 December 2023 and 31 December 2022 can be detailed as follows:

	31 December 2023	31 December 2022
Sovereign issuers		
Republic of Albania	6,961,271	10,661,004
Unlisted	5,615,670	9,177,096
Listed	1,345,601	1,483,908
US and EU member states	321,922	2,015,946
Listed	321,922	2,015,946
Total	7,283,193	12,676,950

As at 31 December 2023 and 31 December 2022 no Albanian Government securities have been pledged as collateral for repurchase agreements.

16. Loans and advances to customers

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

	31 December 2023	31 December 2022
Loans	41,781,725	43,079,273
Overdrafts	12,592,588	12,901,058
Financial lease	486,417	436,074
Deferred disbursement fees	(186,276)	(184,623)
Gross amount	54,674,454	56,231,782
Less impairment loss allowance (see Note 9.(a).(v))	(1,672,207)	(1,964,550)
Total net amount	53,002,247	54,267,232

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 2023	31 December 2022
Less than one year	167,582	208,216
Between one and five years	316,409	223,587
Over 5 years	2,426	4,271
Gross finance lease	486,417	436,074
Less impairment allowance	(6,541)	(32,943)
Total	479,876	403,131

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

	2023			2022		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Retail customers	19,231,507	573,721	18,657,786	29,224,959	1,070,030	28,154,929
Mortgage lending	14,629,653	199,180	14,430,473	12,594,254	286,848	12,307,406
Personal loans	4,476,913	357,172	4,119,741	16,560,463	773,584	15,786,879
Credit cards	97,060	16,476	80,584	46,910	7,690	39,220
Leasing	27,881	893	26,988	23,332	1,908	21,424
Corporate customers	35,442,947	1,098,486	34,344,461	27,006,823	894,520	26,112,303
Investment loans	20,827,934	521,974	20,305,960	24,229,616	682,232	23,547,384
Working capital	14,156,576	570,864	13,585,712	2,364,465	181,253	2,183,212
Leasing	458,437	5,648	452,789	412,742	31,035	381,707
Total	54,674,454	1,672,207	53,002,247	56,231,782	1,964,550	54,267,232

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

17. Property and Equipment

Property and Equipment as at 31 December 2023 and 31 December 2022 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 or fair value*						
Balance as at 1 January 2022	1,320,839	1,367,596	169,882	268,474	323,302	3,450,093
Additions	29,428	180,515	8,943	49,547	(158,541)	109,892
Disposals	-	(267,885)	(13,808)	(66,347)	-	(348,040)
Adjustment of Revaluation	-	-	-	-	-	-
Balance as at 31 December 2022	1,350,267	1,280,226	165,017	251,674	164,761	3,211,945
Additions	-	102,774	16,462	32,224	12,519	163,979
Disposals	-	-	-	-	-	-
Adjustment of Revaluation	(139,961)	-	-	-	-	(139,961)
Balance as at 31 December 2023	1,210,306	1,383,000	181,479	283,898	177,280	3,235,963
Accumulated Depreciation						
Balance as at 1 January 2022	46,180	1,140,188	125,412	164,296	-	1,476,076
Depreciation for the year	47,089	98,425	11,233	22,042	-	178,789
Disposals	-	(256,352)	(10,878)	(61,726)	-	(328,956)
Used on the Impairment loss	-	-	-	-	-	-
Balance as at 31 December 2022	93,269	982,261	125,767	124,612	-	1,325,909
Depreciation for the year	47,556	111,098	12,885	29,195	-	200,734
Transfer for Integration Costs (note 26)	-	(11,299)	(2,247)	(2,441)	-	(15,987)
Disposals	-	-	-	-	-	-
Used on the Impairment loss	(140,825)	-	-	-	-	(140,825)
Balance as at 31 December 2023	-	1,093,359	138,652	153,807	-	1,385,818
Carrying amount						
At 31 December 2022	1,256,998	297,965	39,250	127,062	164,761	1,886,036
At 31 December 2023	1,210,306	289,641	42,827	130,091	177,280	1,850,145

*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.

Fully depreciated assets still in use for the year ended 2023 have an historical cost of ALL 52,697 thousand.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***18. Right of use of assets and lease liability****A. Leases as lessee**

The Bank leases a number of branch and office premises. These 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. 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 2022	736,921	67,251	804,172
Additions	269,583	-	269,583
Disposal/Transfer	(228,645)	-	(228,645)
At 31 December 2022	777,859	67,251	845,110
Additions	127,995	-	127,995
Modifications	(72,687)	-	(72,687)
Disposal/Transfer	(99,200)	-	(99,200)
At 31 December 2023	733,967	67,251	801,218
Accumulated Depreciation			
At 1 January 2022	(302,725)	(31,778)	(334,503)
Depreciation charge	(134,034)	(14,119)	(148,153)
Depreciation charge for disposals	152,696	-	152,696
At 31 December 2022	(284,064)	(45,897)	(329,960)
Depreciation charge	(134,080)	(14,119)	(148,199)
Depreciation charge for disposals	113,578	-	113,578
At 31 December 2023	(304,565)	(60,016)	(364,581)
Net book amount			
At 31 December 2022	493,796	21,354	515,150
At 31 December 2023	429,402	7,235	436,637
Average Discount rate	4.04%	0.00%	

The Bank has rental agreements with renewal options for its offices in Albania. During 2023, the amount of Lek 18,360 thousand was recognized as operating lease expense under IAS 17 in respect of lease rentals (2022: Lek 21,346 thousand).

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's reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***18. 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:

	2023	2022
At 1 January	495,621	468,760
Additions	127,775	266,124
Disposals	(23,789)	(74,500)
Modifications	(28,167)	-
Accrual of interest	15,008	10,045
Lease payment	(143,741)	(149,894)
Revaluation effect	(40,056)	(24,914)
At 31 December	402,651	495,621

The maturity analysis of lease liabilities is disclosed in Note 12.

19. Intangible Assets

Intangible assets as at 31 December 2023 and 31 December 2022 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2022	2,343,098	141,814	2,484,912
Additions during period	207,082	35,786	242,868
Transfers	-	-	-
Balance as at 31 December 2022	2,550,180	177,600	2,727,780
Additions during period	40,323	125,555	165,878
Transfers	177,916	(177,916)	-
Balance as at 31 December 2023	2,768,419	125,239	2,893,658
Amortization and Impairment Losses			
Balance as at 1 January 2022	1,967,101	-	1,967,101
Amortization charge for the year	156,473	-	156,473
Disposals	-	-	-
Balance as at 31 December 2022	2,123,574	-	2,123,574
Amortization charge for the year	159,358	-	159,358
Disposals	-	-	-
Balance as at 31 December 2023	2,282,932	-	2,282,932
Carrying amount			
At 31 December 2022	426,606	177,600	604,206
At 31 December 2023	485,487	125,239	610,726

Fully depreciated assets still in use for the year ended 2023 have an historical cost of ALL 1,717 mio.

20. Investment property

The Bank holds investment property as consequence of acquisitions through enforcement of security over loans and advances. As at 31 December 2022, the investment property represents a foreclosed collateral repossessed during 2017. During 2023, investment property rentals of Lek 13,910 thousand (2022: Lek 15,719 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.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***20. 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.

	2023	2022
Balance at 1 January	502,498	533,798
Acquired during the year	-	-
Assets sold during the year	-	-
Net changes in fair value	(17,242)	(31,300)
Balance at 31 December	485,256	502,498

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:

Valuation technique	Significant unobservable inputs	2023	2022
		Range (weighted average)	
	Estimated rental value per sqm per month	1,167 - 12,376	1,167 - 12,376
Discounted cash flow method (DCF)	Discounted rate	EUR 9%	EUR 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.

21. Other assets

Other assets as at 31 December 2023 and 31 December 2022 are as follows:

	31 December 2023	31 December 2022
Sundry debtors	21,850	26,964
ATM & POS transactions	168,152	100,861
Leasehold improvements	144,299	109,605
Prepayments	42,508	60,266
Cheques for collection	1,376	2,570
VAT Receivable	300,928	224,651
Others	112,539	78,061
Total	791,652	602,978

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

	31 December 2023	31 December 2022
At beginning of the period	109,605	77,080
Additions during period	63,309	60,125
Amortization of the period	(23,126)	(17,422)
Transfer for Integration Costs (note 26)	(5,489)	(10,178)
At end of the period	144,299	109,605

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***22. 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. The foreign exchange effect arises due to the fact that such assets are typically priced in Euro in the market.

	2023	2022
At beginning of the period	275,759	359,008
Additions during period	12,888	47,098
Disposals of the period	(29,139)	(26,506)
Write back/(down) to net realizable value	(58,647)	(91,421)
Effect of movements in foreign exchange	(16,283)	(12,420)
At end of the period	184,578	275,759

23. Due to banks

Due to banks as at 31 December 2023 and 31 December 2022 are as follows:

	31 December 2023	31 December 2022
Correspondent banks		
Current accounts	229,658	107,348
Resident	1,403	1,574
Non-resident	228,255	105,774
Borrowings	141,268	122,435
Non-resident	141,268	122,435
Deposits	1,222,381	788,000
Resident	1,222,381	788,000
Non-resident	-	-
Current Accounts with Central Bank	385,546	
Total	1,978,853	1,017,783

As at 31 December 2023 and 31 December 2022, no Albanian Government securities have been pledged as collateral for repurchase agreements.

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023
(in thousands of Lek, unless otherwise stated)

24. Due to customers

Due to customers as at 31 December 2023 and 31 December 2022 are composed as follows:

	31 December 2023			31 December 2022		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current accounts						
Retail	15,273,411	26,919,413	42,192,824	14,202,597	29,929,058	44,131,655
Corporate	16,394,702	30,758,492	47,153,194	14,065,469	30,239,899	44,305,368
	31,668,113	57,677,905	89,346,018	28,268,066	60,168,957	88,437,023
Deposits						
Retail	36,122,612	38,270,344	74,392,956	35,382,306	38,423,515	73,805,821
Corporate	1,134,132	1,310,716	2,444,848	920,465	3,951,703	4,872,168
	37,256,744	39,581,060	76,837,804	36,302,771	42,375,218	78,677,989
Total	68,924,857	97,258,965	166,183,822	64,570,837	102,544,175	167,115,012

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

	31 December 2023			31 December 2022		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Current Accounts						
Deposits						
On demand	5,384,843	19,845,141	25,229,984	5,934,735	25,544,518	31,479,253
One month	8,844	26,521	35,365	7,135	32,018	39,153
Three months	312,424	924,503	1,236,927	394,454	3,935,198	4,329,652
Six months	1,016,260	1,340,922	2,357,182	1,225,832	1,884,377	3,110,209
Nine months	33,556	14,617	48,173	65,353	35,450	100,803
Twelve months	8,811,677	13,012,118	21,823,795	8,032,719	8,966,358	16,999,077
Twenty-four months	3,604,188	1,856,408	5,460,596	4,198,582	1,350,566	5,549,148
Other	18,084,952	2,560,830	20,645,782	16,256,409	814,285	17,070,694
	37,256,744	39,581,060	76,837,804	36,115,219	42,562,770	78,677,989
Total	68,924,857	97,258,965	166,183,822	64,570,837	102,544,175	167,115,012

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

(in thousands of Lek, unless otherwise stated)

24. 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:

	2023	ALL (%)	USD (%)	EUR (%)
2023		ALL (%)	USD (%)	EUR (%)
Demand deposits		0.20 - 0.20	0.10 - 0.10	0.00 - 0.00
Time deposits - 1 month		0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits - 3 months		0.20 - 0.90	0.10 - 0.20	0.00 - 0.20
Time deposits - 6 months		0.20 - 1.25	0.10 - 0.25	0.00 - 0.30
Time deposits - 9 months		0.40 - 0.40	-	0.00 - 0.00
Time deposits - 10 months		0.85 - 1.50	0.35 - 1.00	-
Time deposits - 12 months		0.20 - 3.00	0.10 - 1.70	0.00 - 1.50
Time deposits - 13 months		0.80 - 0.80	-	-
Time deposits - 15 months		1.25 - 2.80	0.45 - 1.40	-
Time deposits - 18 months		0.90 - 2.80	0.20 - 0.20	0.00 - 0.00
Time deposits - 21 months		1.35 - 2.90		
Time deposits - 24 months		1.40 - 3.10	0.20 - 1.90	0.00 - 1.90
Time deposits - 30 months		1.32 - 2.74		
Time deposits - 36 months		1.40 - 4.17	0.25 - 0.25	0.00 - 2.10
Time deposits - 60 months		2.26 - 3.80	0.25 - 0.25	0.00 - 0.00
	2022	ALL (%)	USD (%)	EUR (%)
Current accounts and demand deposits		0.05 - 2.35	0.05 - 3.16	0.58 - 1.51
Time deposits - 1 month		0.20 - 0.20	0.05 - 0.10	0.00 - 0.00
Time deposits - 3 months		0.20 - 0.70	0.10 - 0.20	0.00 - 0.20
Time deposits - 6 months		0.20 - 0.80	0.10 - 0.25	0.00 - 0.30
Time deposits - 9 months		0.40 - 0.40	-	0.00 - 0.00
Time deposits - 10 months		0.50 - 0.85	0.35 - 0.35	-
Time deposits - 12 months		0.20 - 1.30	0.10 - 0.30	0.00 - 0.50
Time deposits - 13 months		0.80 - 0.80	-	-
Time deposits - 15 months		0.85 - 1.25	0.45 - 0.45	-
Time deposits - 18 months		0.90 - 1.17	0.20 - 0.20	0.00 - 0.00
Time deposits - 21 months		0.95 - 1.35	-	-
Time deposits - 24 months		1.05 - 1.80	0.20 - 0.25	0.00 - 0.80
Time deposits - 30 months		1.20 - 1.32	-	-
Time deposits - 36 months		1.40 - 2.95	0.25 - 0.25	0.00 - 1.10
Time deposits - 60 months		2.26 - 3.6	0.25 - 0.25	0.00 - 0.00
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).

25. Deferred Tax

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

	31 December 2023			31 December 2022		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Investment securities measured at FVOCI	(24,282)	-	(24,282)	169,421	-	169,421
Allowance for expected credit losses	26,908	-	26,908	53,180	-	53,180
Investment Property	-	1,599	(1,599)	-	1,599	(1,599)
Repossessed assets	115,432	-	115,432	147,014	-	147,014
Properties	-	94,306	(94,306)		94,177	(94,177)
Right-of-use assets	59,297	65,496	(6,199)	74,343	77,272	(2,929)
Equipment and intangible assets	109,128	-	109,128	105,649	-	105,649
Net deferred tax assets	286,483	161,401	125,082	549,607	173,048	376,559

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***25. Deferred Tax (continued)**

Movements in temporary differences during the year are as follows:

31 December 2023	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	169,421	-	(193,703)	(24,282)
Allowance for expected credit losses	53,180	(26,272)	-	26,908
Investment Property	(1,599)	-	-	(1,599)
Reposessed assets	147,014	(31,582)	-	115,432
Properties	(94,177)	-	(130)	(94,306)
Right-of-use assets	(2,929)	(3,270)	-	(6,199)
Equipment and intangible assets	105,649	3,479	-	109,128
Total	376,559	(57,645)	(193,833)	125,082

31 December 2022	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Closing Balance
Investment securities measured at FVOCI	(54,392)	-	223,813	169,421
Allowance for expected credit losses	91,002	-	(37,822)	53,180
Investment Property	(1,599)	-	-	(1,599)
Reposessed assets	148,944	(1,930)	-	147,014
Properties	(94,177)	-	-	(94,177)
Right-of-use assets	118	(3,047)	-	(2,929)
Equipment and intangible assets	112,418	(6,769)	-	105,649
Total	202,314	(11,746)	185,991	376,559

26. Provisions

Movements in provisions during the year are as follows:

	Tax Litigation	Other Litigations	Off-Balance Sheet ECL	Integration provision	Total
Balance at 1 January 2023	154,239	165,603	69,328	91,901	481,071
Provisions made/(reversed) during the year	-	37,403	1,045	-	38,448
Provisions used during the year	-	-	-	(22,430)	(22,430)
Effect of movements in foreign exchange	145	(15,243)	(5,680)	-	(20,778)
Balance at 31 December 2023	154,384	187,763	64,693	69,471	476,311

27. Other liabilities

Other liabilities as at 31 December 2023 and 31 December 2022 are composed as follows:

	31 December 2023	31 December 2022
Accrued expenses	491,868	407,414
Sundry creditors	49,760	140,915
Suspense accounts	332,480	284,872
Bank cheques issued and payments in transit	377,933	277,879
Other tax liabilities	253,918	184,026
Due to third parties	33,067	27,356
Other	3	2
Total	1,539,029	1,322,464

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***28. 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 2023 and 2022	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 2023 and 2022. During 2023 Lek 1,814,215 thousand dividend was recognized as distribution to the ultimate parent (2022: no dividend).

29. Reserves

As at 31 December 2023 and 31 December 2022, the reserves were:

	31 December 2023	31 December 2022
Regulatory reserve (a)	1,125,443	1,125,443
Legal reserve (b)	700,180	700,180
Fair value reserve (c)	794,535	(329,668)
Revaluation reserve (d)	534,404	533,669
Other capital reserve (e)	714,554	714,554
Merger reserve (f)	2,813,396	2,813,396
Total	6,682,512	5,557,574

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 2023, the regulatory reserve represented 1.34% of total risk-weighted assets (2022: 1.34%).

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 2023, the balance represented 10% of the Bank's share capital (2022: 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.

Below is disclosed the gross value of the fair value reserve and the deferred tax as at 31 December 2023 and 2022:

	31 December 2023	31 December 2022
Gross reserve	818,817	(499,089)
Deferred tax	(24,282)	169,421
Total	794,535	(329,668)

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 Fair value through OCI 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 a consideration 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 2023

*(in thousands of Lek, unless otherwise stated)***30. Net Interest income**

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

Interest income	2023	2022
Loans and advances to customers	3,118,456	2,257,590
Investment securities at amortized cost	422,377	772,096
Loans and advances to banks	1,106,434	202,203
Investment securities at FVOCI	2,289,310	1,363,218
Total interest income	6,936,577	4,595,107
Interest expenses		
Demand and time deposits	865,376	677,095
Deposits from banks	18,568	114,440
Current accounts of customers	79,128	35,711
Lease liability (note 18)	15,008	9,996
Negative interest on interest bearing assets	10,557	69,767
Total interest expenses	988,637	907,009
Net interest income	5,947,940	3,688,098

31. Net fee and commission income

	2023			2022		
	Retail Banking	Corporate Banking	Total	Retail Banking	Corporate Banking	Total
<i>Fee income earned from services that are provided over time:</i>						
Unused/advanced liquidated credit lines	12,433	49,720	62,153	8,653	21,997	30,650
Active current accounts	221,231	24,016	245,247	226,792	14,628	241,420
Arrangement fees and others	4,997	35,531	40,528	5,304	26,356	31,660
Guarantees given	679	38,117	38,796	723	41,339	42,062
<i>Fee income from providing financial services at a point in time:</i>						
ATMs and POSs	489,392	160,204	649,596	402,927	116,808	519,735
Collection and payment services	281,754	301,877	583,631	254,835	323,502	578,337
Fee and commission income	1,010,486	609,465	1,619,951	899,234	544,630	1,443,864
ATMs and POSs	427,914	163,756	591,670	328,475	119,165	447,640
Banking services	550	11,194	11,744	618	10,798	11,416
Collection and payment services	21,013	16,467	37,480	9,340	15,530	24,870
Guarantees received	-	10,685	10,685	-	5,072	5,072
Fee and commission expenses	449,477	202,102	651,579	338,433	150,565	488,998
Net fee and commission income	561,009	407,363	968,372	560,801	394,065	954,866

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 2023

*(in thousands of Lek, unless otherwise stated)***32. Net other income**

	2023	2022
Foreign exchange gains	703,354	631,829
Recoveries on written off loans	44,279	79,615
Rent income	13,911	15,719
Gain on sale of repossessed assets	5,075	12,202
(Loss)/ gain from sale of investment securities	(6,670)	(610)
Total	759,949	738,755

33. Net other operating expenses

	2023	2022
Premium on deposits insurance	460,291	450,635
Loss on sundry net operational	9,115	36,241
Total	469,406	486,876

34. Personnel expenses

	2023	2022
Salaries	1,301,819	1,191,091
Social Insurance	174,980	149,936
Total salaries and social insurance	1,476,799	1,341,027
Personnel on secondment	95,224	95,575
Training & similar	22,290	15,037
Termination indemnities and others	132,221	60,920
Total	1,726,534	1,512,559

Salaries and social insurance for the year ended 31 December 2023 and 2022 are further breakdowns as follows:

	2023	2022
Board of Directors	11,806	8,974
Executive Management	281,662	439,533
Other personnel	1,326,172	1,030,606
Total	1,619,640	1,479,113

For the year ended 31 December 2023 the Bank had an average number of 723 employees (2022: 701).

35. Other administrative expenses

	2023	2022
Software maintenance	601,012	516,120
Maintenance and repair	91,935	96,521
Security	66,304	66,613
Indirect Taxes	135,447	94,458
Telephone and electricity	66,233	68,986
Consulting, legal and professional fees	46,992	47,121
Stationery	51,892	48,132
Transport and security services	46,648	36,629
Advertising and publications	53,662	23,390
Integration Fees	180,783	35,624
Insurance	7,526	11,264
Short term and low-value leases	18,360	21,346
Travel and business trips	8,797	6,424
Other	-	23,720
Total	1,375,591	1,096,348

Consulting, legal and professional fees for the year ended 31 December 2023 include statutory and non-statutory audit fees amounting to Lek 13,438 thousand (2022: Lek 16,168 thousand).

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***36. Income tax expenses**

The components of income tax expense for the year ended 31 December 2023 and 2022 are:

	2023	2022
Current tax for the year	540,621	216,073
Current tax expense	540,621	216,073
Origination and reversal of temporary differences	57,644	11,747
Deferred tax expense	57,644	11,747
Income tax expense	598,265	227,820

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2023 and 2022 is presented as follows:

	2023	2022
Accounting Profit before tax	3,651,988	1,517,53
Income tax at domestic corporate tax rate	15.00% 547,798	15.00% 227,637
Non-deductible expenses	2.13% 77,713	4.35% 66,082
Income exempted from income tax	-2.32% (84,890)	-5.12% (77,646)
Origination and reversal of temporary differences	1.58% 57,644	0.77% 11,747
Income tax Expense	16.38% 598,265	15.01% 227,820

Non-deductible expenses are detailed as follows:

	2023	2022
Representations & Sponsorships expenses	-	30
Sundry operational losses	2,508	22,068
Operating leases expenses	5,724	4,337
Personnel expenses	22,705	31,986
Office expenses	14,299	13,408
Other provisions expenses	294,623	211,177
Litigation expenses	37,403	94
Losses on unrecoverable loans and overdrafts	99,739	93,487
Depreciation and amortization expenses	24,247	3,314
IFRS 16 impact	16,832	4,779
Write down of inventory	-	55,861
Total	518,080	440,541
At 15%	77,713	66,082

Income exempted from income tax are generally reversals of accruals and provisions that were treated as non-deductible in prior years and are detailed as follows

	2023	2022
Write down of inventory	-135,894	-
Recovery of accruals litigation cases	0	(45,608)
Reversal of accruals related to prior years	(149,514)	(113,841)
Allowance reversals for expected credit losses	(175,149)	(252,150)
Eurobond Income	(105,374)	(106,038)
Total	(565,931)	(517,637)
At 15%	(84,890)	(77,646)

The Bank prepaid income tax in the amount of Lek 570,556 thousand were paid during 2023 (2022: Lek 79,625 thousand).

Intesa Sanpaolo Bank Albania sh.a.

Notes to the financial statements for the year ended 31 December 2023

*(in thousands of Lek, unless otherwise stated)***37. Commitments and contingencies**

Commitments and contingencies as at 31 December 2023 and 31 December 2022 are as follows:

	31 December 2023	31 December 2022
Contingent Assets	145,247,188	154,546,158
Guarantees received from credit customers	125,951,568	130,979,236
Guarantees received from Government	4,347,139	5,560,701
Money market future dated deals	2,158,400	3,595,156
Forward foreign exchange contracts	1,470,049	911,433
Other	11,320,032	13,499,632
Contingent Liabilities	17,497,489	15,456,996
Guarantees in favor of customers	6,274,192	5,779,750
Un-drawn credit facilities	11,183,570	9,659,518
Letters of credit	39,727	17,728

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.

38. 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 2023

*(in thousands of Lek, unless otherwise stated)***38. Related parties (continued)**

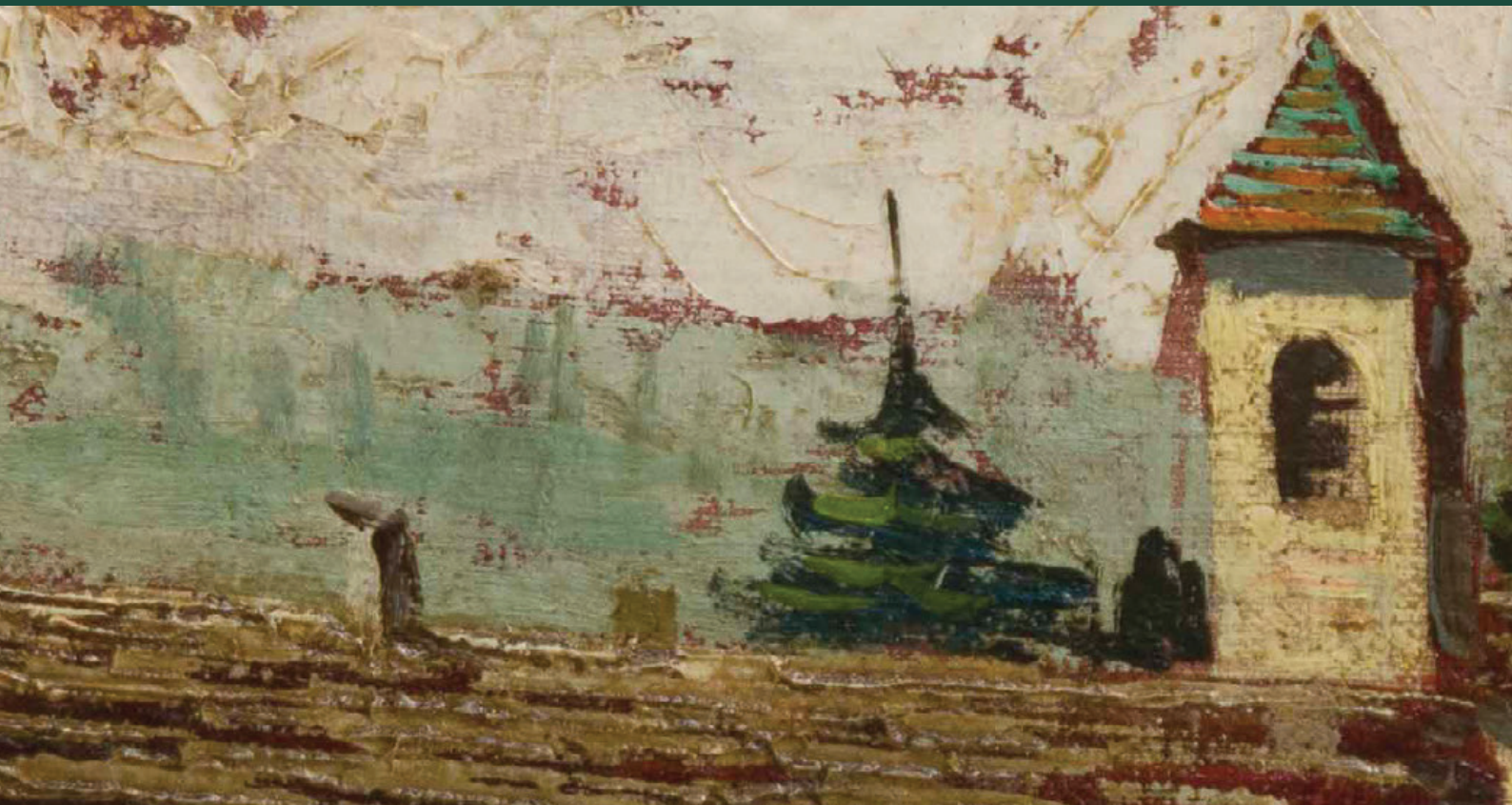
The following transactions have taken place during the year ended 31 December 2023 and 31 December 2022:

	ISP Group companies		Key management personnel and Other related parties	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Assets at end of year	10,711,855	9,786,449	52,690	209,545
Loans and advances to credit institutions	10,708,863	9,777,650	-	-
Impairment losses	(862)	(238)	-	-
Loans and advances to customers	-	-	52,690	209,545
Impairment losses	-	-	(328)	(775)
Other assets	2,992	8,799	-	-
Liabilities at end of year	18,271	23,722	355,702	388,274
Loans and advances from credit institutions	-	-	-	-
Customer deposits	-	-	355,702	388,274
Invoices to be received	18,271	23,722	-	-
Off balance sheet	4,104,619	6,034,664	-	-
Letter of credit/Letter of Guarantees given	27,763	49,091	-	-
Letter of credit/Letter of Guarantees received	1,962,398	2,000,346	-	-
Foreign currency contracts and money market deals	2,114,458	3,985,227	-	-
Commitments given	-	-	-	-
Collaterals	-	-	-	-
Income for year ending	384,406	140,337	3,041	3,051
Interest income	340,109	93,090	2,657	2,283
Commission Income	44,298	47,247	384	768
Expenses for the year ending	561,507	424,138	2,705	1,301
Interest expense	-	12,263	2,705	1,301
Commission expense and others	15,842	17,674	-	-
Other Administrative Costs	545,664	394,201	-	-
Compensation of Key Managers	-	-	152,993	151,021
Net Salary	-	-	96,560	105,799
Net Bonus paid	-	-	19,600	14,278
Social & Health Insurance	-	-	6,127	5,728
Other expenses (Lecoip)	-	-	7,772	5,461
Other expenses	-	-	22,934	19,755

39. Subsequent events

There are no events after the reporting date that require disclosure in these financial statements.

Organizational Structure of the Bank



Organisational Structure

The Organizational Code Document of Intesa Sanpaolo Bank Albania describes its organizational structure by means of:

- **The mission of each Division and Department**
- **The duties and key responsibilities of all other Intesa Sanpaolo Bank Albania organizational structures**

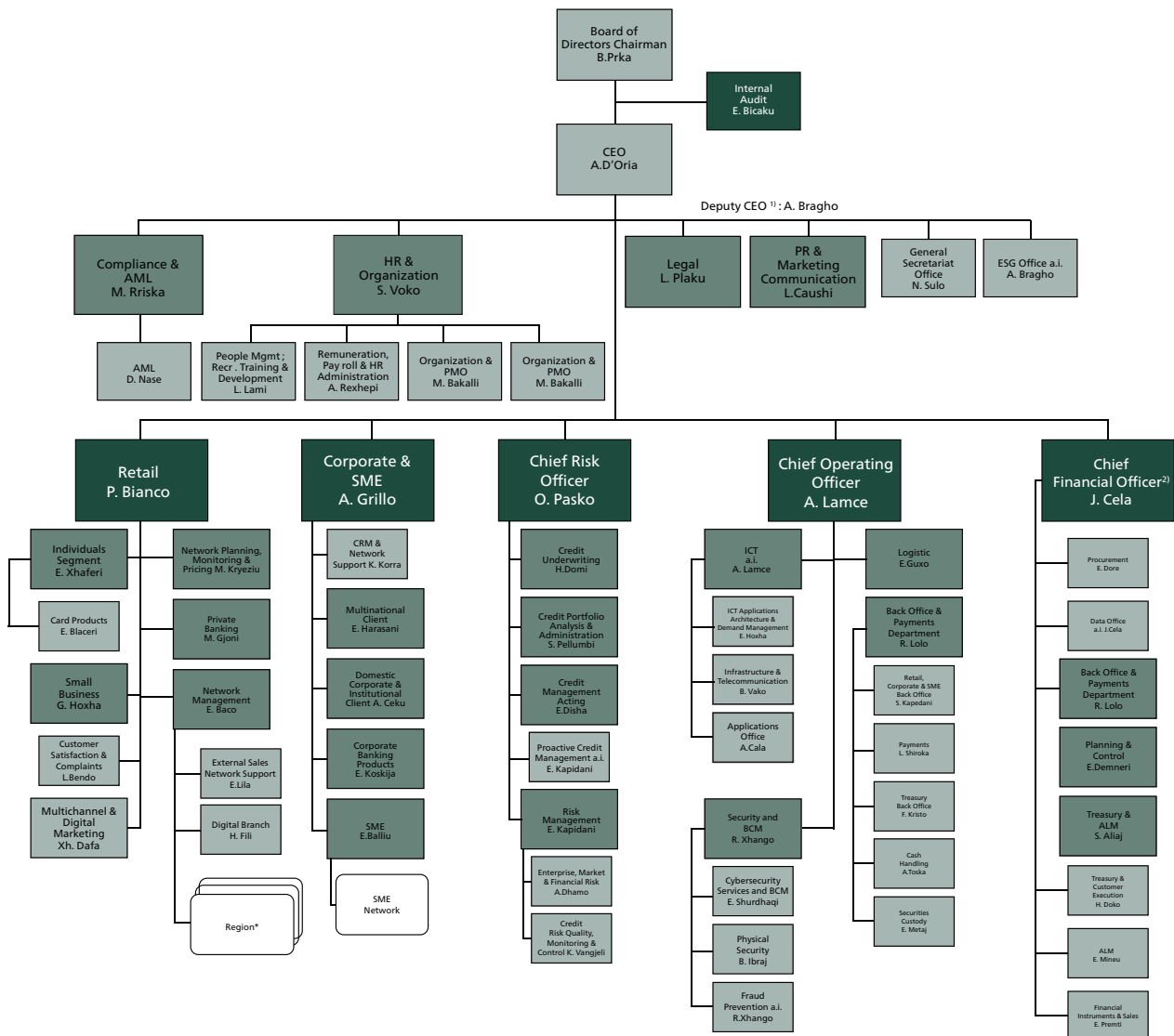
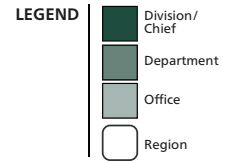
This document also **includes provisions for the functional relations in place among Intesa Sanpaolo Bank Albania and the Intesa Sanpaolo Group** (Parent Company).

The order adopted to list the organizational structures within this document is the same applied to the Bank's organizational charts:

Structures that report to the Board of Directors

- Department and its related organizational structures (Offices) Structures that report to CEO
- Department and its related organizational structures (Offices)
- Office
- Division which may include
 - Departments and its related organizational structures (Offices)
 - Offices

Organisational Structure



Footnotes:

1) Managerial oversight over Compliance & AML, Legal and General Secretariat and supervision and coordination over ICT, Operations, CFO and Chief Risk Officer;

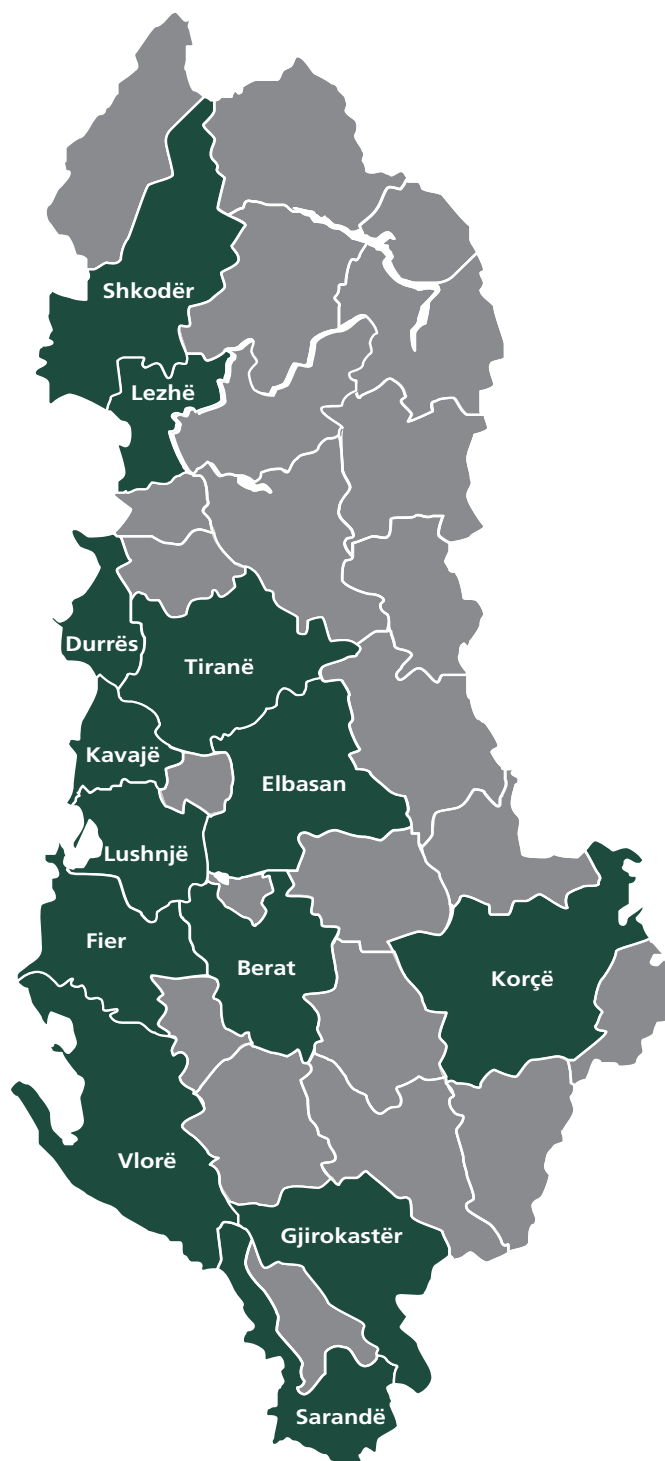
2) Julian Cela is Reporting Officer.

* Regions manage the respective Branches assigned.

** As of June 6th 2024

Bank Business Network





Intesa Sanpaolo Bank Albania

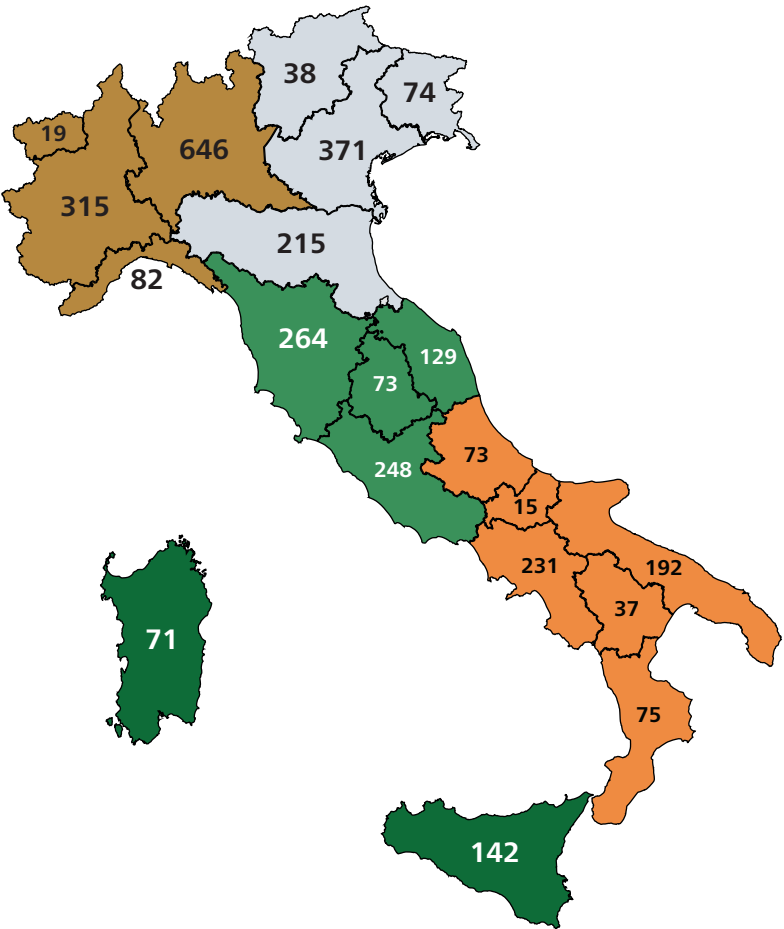
Business Network

Nr.	Branch	Branch code	Address
1.	Ismail Qemali Branch	000	Str. "I.Qemali", Nr. 27 P.O. Box 8319 1001 Tirana, Albania
2.	Durrës Main Branch	001	Nbhd. No 1, Str. "Taulantia", Suqare "M.Ulqinaku" near the port, 2001 Durrës
3.	Vlorë Branch	002	Nbhd. "24 Maji" Str. Transballkanike Vlorë, Albania
4.	Elbasan Branch	003	Blvd. "Qemal Stafa" Box 3001 Elbasan, Albania
5.	Fier Branch	004	Nbhd. "15 Tetori" Box 9301 Fier, Albania
6.	Gjirokastër Branch	005	Nbhd. "18 Shtatori" Box 6001 Gjirokastër, Albania
7.	Korçë Branch	006	Blvd. "Republika" Korçë, Albania
8.	Lushnjë Branch	007	Nbhd. "Kongresi" near Art Business Center, Box 9001 Lushnjë, Albania
9.	Lezhë Branch	008	Nbhd. "Besëlidhja", Box 4501 Lezhë, Albania
10.	Str. Barrikadave Branch	010	Str. "Barrikadave" 1016 Tirana, Albania
11.	Train Station Durrës Branch	011	Str. "9 Maji" (near the train station) 2002 Durrës, Albania
12.	Str. Sadik Zotaj Vlorë Branch	012	Str. "Sadik Zotaj" Box 9401 Vlorë, Albania
13.	Shkodër Branch	018	Str. "13 Dhjetori" Box 4001 Shkodër, Albania
14.	Laparakë Branch	020	Str. "Dritan Hoxha" Nd 203, H. 1, 1023 Tirana, Albania
15.	Branch at the Beach Durrës	021	Nbhd. 13, (near beach railway) 2007 Durrës, Albania
16.	A.Goga Durrës Branch	022	Str. "Aleksander Goga" Durrës, Albania
17.	Rinas Durrës	023	International Airport "Nënë Tereza" (Mother Tereza), 1032 Rinas, Albania
18.	U.S.A Embassy Branch	024	(Only for the Embassy) 1010 Tirana, Albania
19.	Italian Embassy Branch		(Only for the Embassy) Str. "Lek Dukagjini" 1010 Tirana, Albania
20.	Rr. e Kavajës Branch	025	(Volkswagen building, at the entrance to Ambasada street) 1001 Tirana, Albania
21.	Rr. e Durrësit Branch	026	"Rilindja" square (intersection "Zogu i Zi") 1001 Tirana, Albania
22.	Blvd. "Zogu I" Branch	027	Shopping Center Tirana, near the train station, 1001 Tirana, Albania
23.	Str. Elbasan Branch	028	Str. Elbasanit Kryqëzimi me Rr. Jul Variboba, 1010 Tirana, Albania
24.	Unaza e re Branch	029	Unaza e Re Teodor Keko 1, 1052 Yzberisht Tirana, Albania
25.	BRUNES Branch	030	(BRUNES) Autostrada Tiranë - Durrës, km7 1029 Tirana, Albania
26.	Rr. e Kavajës Branch 2	031	Str. Kavajes 1012 Tirana, Albania
27.	Komuna e Parisit Branch	032	Str. Medar Shtylla, Nd. 27 H. 4 (Tiranë e Re) 1019 Tirana, Albania
28.	Kombinat Branch	033	"Rruga e kavajes" (in front of the municipal unit nr 6) - Kombinat Tirana, Albania
29.	Str. Bardhyl Branch	034	Str. Bardhyl, Pallati Progin, in front of UKT
30.	TEG Branch	036	Str. Elbasanit, Sauk TEG Shopping Center Tirana, Albania
31.	Kavaja Branch	037	Blvd. "Indrit Cara", Kavajë, Albania
32.	Berat Branch	038	Nbhd. "22 Tetori", Blvd. "Republika" Berat, Albania
33.	Piramida Branch	041	Blv. Dëshmorët E Kombit, Piramida Center, Tirana, Albania
34.	A. Demi Branch	042	Str. Ali Demi, Kompleksi Vind, Tirana
35.	Saranda Branch	043	Str Skenderbeu, Nbhd. Nr 1, Saranda

Intesa Sanpaolo Group
Italian Network



The Group Italian Network



NORTH WEST

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
961	Fideuram	101

CENTRE

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
669	Fideuram	45

ISLANDS

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
203	Fideuram	10

NORTH EAST

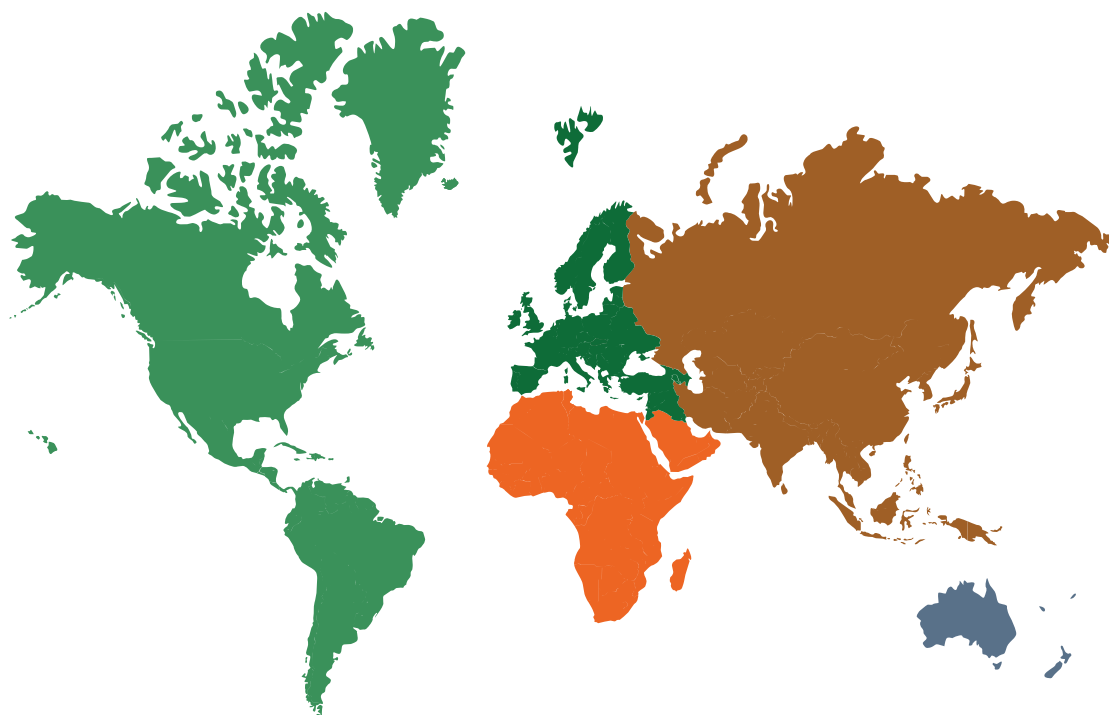
Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
639	Fideuram	59

SOUTH

Intesa Sanpaolo	Subsidiaries	
Branches	Company	Branches
590	Fideuram	33

Figures as at 31 March 2024

The Group International Network



EUROPE

Direct Branches	Representative Offices
Amsterdam	Brussels ⁽¹⁾
Frankfurt	
Istanbul	
London	
Madrid	
Paris	
Warsaw	

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Belgium	Intesa Sanpaolo Wealth Management	2
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	43
Croatia	Privredna Banka Zagreb	141
Czech Republic	VUB Banka	1
Hungary	CIB Bank	60
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Intesa Sanpaolo Wealth Management	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania ⁽¹⁾	Intesa Sanpaolo Bank Romania	34
Russian Federation	Banca Intesa	27
Serbia	Banca Intesa Beograd	142
Slovakia	VUB Banka	156
Slovenia	Intesa Sanpaolo Bank	40
Switzerland	Reyl Intesa Sanpaolo	3
Ukraine	Pravex bank	40

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	173

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 at 31 March 2024

(1) European Regulatory & Public Affairs

(2) On 31 May 2024, Intesa Sanpaolo finalised the acquisition of First Bank

