United Bank of Albania Sh.a.

Financial Statements as at and for the year ended December 31, 2023

With the Independent Auditor’s Report thereon

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INDEPENDENT AUDITOR'S REPORT

To the management and shareholders of United Bank of Albania

Opinion

We have audited the accompanying financial statements of **United Bank of Albania sh.a.** (hereinafter "the Bank"), which comprise the statement of financial position as at December 31, 2023, statement of profit or loss and comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank within the meaning of ethical requirements applicable in the audit of financial statements in Albania and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Management is responsible for other information. Other information includes information included in the annual report, prepared by management in accordance with Articles 17 and 19 of Law 25/2018, dated 10 May 2018 "On accounting and financial statements", as amended, but does not include our financial statements and audit report. The annual report is expected to be made available to us after the date of this audit report. Our opinion on financial statements does not cover other information and we will not make any form of security conclusions about them.

In connection with our audit of financial statements, our responsibility is to read the other information identified above when it becomes available to us and, in doing so, to consider whether this other information is materially contrary to the financial statements or knowledge received in the audit, or else it seems to be materially wrong. When we read the Annual Report, if we conclude that there is a material anomaly in it, we are required to communicate this matter to the persons in charge of the government.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit 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 planning and performance of 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 entity'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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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May 30th, 2024

Diana Ylli (Golemi)
Statutory Auditor

Statement of Financial Position

Amounts in LEK '000

	Notes	December 31, 2023	December 31, 2022
Assets			
Cash and cash equivalents	8	2,895,661	3,122,841
Restricted balances with Central Bank	8	979,868	835,352
Investments with banks and financial institutions	9	11,890,590	7,861,826
Financial receivables	10	1,496	111,877
Repossessed assets	11	173,919	226,921
Property, equipment and intangible assets	12	299,790	15,502
Prepaid income tax	29	13,877	13,877
Other assets	13	739,243	385,353
Total assets		**16,994,444**	**12,573,549**
Liabilities			
Due to banks and financial institutions	14	2,429,550	1,342,441
Borrowings to Banks		145,028	0
Due to customers	15	10,900,071	9,906,562
Lease liabilities and other provisions	17	303,292	71,349
Other liabilities	16	198,886	127,498
Total liabilities		**13,976,827**	**11,447,849**
Equity			
Share capital	18	4,669,415	2,227,176
Reserves	18	120,904	120,904
Accumulated losses		(1,772,702)	(1,222,380)
Total equity		**3,017,617**	**1,125,700**
Total liabilities and equity		**16,994,444**	**12,573,549**

The financial statements were authorized for release by the Board of Directors and signed on 26 May 2024 in its behalf by:

Orfea Dhuci
General Director

UNITED BANK OF ALBANIA
UBA
DREJTORIA
BANKA E BASHKUAR E SHQIPËRISË

Florjan Bizhga
Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 78.

Statement of Profit or Loss and Other Comprehensive Income

Amounts in LEK '000

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Income from financial activity	19	693,276	547,679
Income from other financial activity	20	36,550	20,450
Expenses related to due to customers	21	(250,837)	(119,146)
Net income from banking operations		**478,989**	**448,983**
Net fee and commission income	22	57,416	59,799
Net foreign exchange (loss)/gain	23	(197,119)	13,502
Other income	24	(103,919)	29,020
Total non-interest (loss)/income, net		**(243,622)**	**102,321**
Credit loss allowance on Murabaha - financial receivables, net	26	(368,436)	(404,696)
Provision expenses for repossessed assets	10	1,496	(99,426)
Expenses for other impairment and provisions, net	27	6,646	(32,109)
Depreciation and amortization	11	(33,292)	(34,664)
Depreciation of RoU assets	12	(17,416)	(3,100)
Personnel expenses	25	(193,242)	(153,438)
Lease expenses		(13,288)	(9,049)
Other administrative expense	28	(168,157)	(152,600)
Total operating expenses		**(785,689)**	**(889,083)**
(Loss)/Profit before income tax		**(550,322)**	**(337,779)**
Current income tax expense	29	-	-
Net (loss)/profit for the year		**(550,322)**	**(337,779)**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(550,322)**	**(337,779)**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 78.

Statement of Cash Flows

Amounts in LEK '000

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Cash flows from operating activities			
(Loss)/Profit before income tax		**(550,322)**	**(337,779)**
Adjustments for non cash items:			
Provisions	9	361,789	(505,095)
Depreciation and amortization of PPE	11	33,292	622
Depreciation of right of use assets	12	17,416	9,385
Impairment of repossessed assets	10	(1,496)	99,426
Devaluation of repossessed assets	10	49,194	-
Interest Income from Financing activity		(15,652)	154,683
Interest Expenses related to due to customers		23,451	(13,397)
		(82,328)	**(592,155)**
Changes in operating assets and liabilities:			
Increase in financial receivables		(5,127,022)	(715,438)
(Increase)/decrease in other assets		(370,179)	(360,862)
Increase in balances with financial institutions		(144,516)	(85,820)
Increase in due to customers		(98,094)	1,117,007
Decrease in due to banks		2,574,577	(120,760)
(Decrease)/Increase in other liabilities		24,562	(341,260)
Interest received from financial activity		745,477	547,679
Interest paid to customers		(274,288)	(83,844)
Net cash used in operating activities		**(2,669,483)**	**(43,299)**
Cash flows from investing activities			
Purchases of equipment and intangible assets	11	(29,484)	(14,919)
Additions in repossessed assets	10	-	(68,371)
Additions in right of use assets	12	-	(4,453)
Sold Repossessed Assets		111,876	(9,674)
Net cash used in investing activities		**82,392**	**(97,417)**
Cash flows from financing activities			
Increase in share capital	18	2,442,239	350,280
Net cash provided by financing activities		**2,442,239**	**350,280**
Net increase/ (decrease) in cash and cash equivalents		(227,180)	(382,591)
Cash and cash equivalents at beginning of the year		**3,122,841**	**3,505,431**
Cash and cash equivalents at the end of the year	8	**2,895,661**	**3,122,840**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 78.

Statement of Changes in Equity

Amounts in LEK '000

	Share Capital	Reserves	Accumulated Losses	Total
Balance at January 1, 2022	**1,876,896**	**120,904**	**(884,601)**	**1,113,199**
Net profit for the year	-	-	(337,779)	**(337,779)**
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(337,779)**	**(337,779)**
Transactions with owners recorded directly in equity				
Increase of Capital	350,280	-	-	350,280
Balance at December 31, 2022	**2,227,176**	**120,904**	**(1,222,380)**	**1,125,700**
Net loss for the year	-	-	(550,322)	**(550,322)**
Other comprehensive income	-	-	-	**-**
Total comprehensive loss for the year	**-**	**-**	**(550,322)**	**(550,322)**
Transactions with owners recorded directly in equity				
Injection of capital	2,442,239	-	-	**2,442,239**
Balance at December 31, 2023	**4,669,415**	**120,904**	**(1,772,702)**	**3,017,617**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 78.

1. General

(a) Reporting entity

United Bank of Albania (hereinafter "the Bank" or "UBA") was established in Albania to operate as a bank in all fields of banking activity in Albania in accordance with Albanian laws. Based on its Articles of Association, the Bank follows the Sharia Principles. The Bank's activities include acting as manager, on a trustee basis, of funds invested in accordance with Islamic laws and principles. The Bank is subject to Law no. 9662 "On Banks on the Republic of Albania", dated December 18, 2006 and is under the supervision ofthe Bank of Albania. On November 5, 1992, the Bank received approval from the Bank of Albania for carrying out banking operations. The registration procedures were completed on 1 July 1994, the incorporation date. On 11 January 1999, pursuant to the Decision No.165, dated December 11, 1998 of the Bank of Albania, the Bank obtained the license, "For continuing the banking activity in the Republic of Albania", in accordance with Law No.8365, dated July 2, 1998, "On banks in the Republic of Albania".

The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank operates under a full banking licence issued by the central Bank of Albania. The Bank participates in the state deposit insurance scheme managed by the Albanian Deposit Insurance Agency.

The Head Office of the Bank is located in Tirana. Currently, the Bank has an Albanian network of 6 branches located in Tirana, Shkodra, Fier and Durres. As at December 31, 2023, the Bank employs 115 staff (2022: 95 staff). The Bank's registered office is at Dritan Hoxha street, Building No. 11, Tirana, Albania. The unique identification number is J91811004Q.

As at 31 December 2023 , the immediate and ultimate parent company of the Bank is Eurosig sha increasing its participation to 99.46% of the shares.

The registered shareholding structure was as follows:

EUROSIG SH.A	99.46%
Other investors	0.54%

As at 31 December 2023, the Board of Directors and Audit Committee of the Bank is composed by the following members:

Board of Directors	Jemin Gjana	Chariman
	Mateo Spaho	Member
	Orfea Dhuci	Member
	Ilir Çekiri	Member
Audit Committee	Jemin Gjana	Chairman
	Orjana Kalaja	Member

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for Mudaraba - Investment fund asset which is measured at fair value through profit or loss.

(c) Functional and presentation currency

These financial statements are presented in Albanian LEK ('LEK'), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in LEK has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and that are described in note 9 are:

- allowances for credit losses,
- determining fair values.
- Going concern
- Repossesed assets impairment
- SICR
- Customer relief

Impairment losses on financial assets – IFRS 9

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

Fair value of guarantees

Collateral is held against financial accounts in the form of mortgage interest on assets, other registered insurances on assets, and guarantees. Fair value assessments are based on the collateral value assessed at the time of borrowing, and are updated annually or when the asset is individually assessed as impaired.

Key sources of estimation uncertainty

a). Expected credit losses measurement
ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 3(d). The following components have a major impact on credit loss allowance:
- segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis; - definition of default applied by the Bank;
- development and application of internal credit grading models, which assigns PDs to the individual credit risk grades;
- development and application of internal models used to estimate exposure at default ("EAD") for financial instruments and credit related commitments;
- assessment of loss given default ("LGD"), including the judgmenets made in valuation of collaterals; - criteria for assessing if there has been a significant increase in credit risk;
- selection of forward-looking macroeconomic scenarios and their probability weightings.

The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.
Due to significant and rapid changes in the economic environment, the Bank decided to adjust the approach to measure ECL for the Standard loans, Specialised loans, and loans issued to SMEs.
The management performed a top-down portfolio analysis and had identified groups of borrowers, for which sufficient reasonable and supportable information for the ECL measurement is available only on the industry basis, instead of individual basis. Overlays applied by the management resulted in the increase of ECL for corporate borrowers in the following industries:

- Production -average ECL increase of 53%
- Transportation average ECL increase of 19%;
- Retail average ECL increase of 31%;

<u>Customer relief measures.</u> During the beginning of 2020, the COVID-19 pandemic spread globally. In March 2020, the government of Albania took drastic measures by suspending all activities that were not vital. Although the activities of the Banks were not suspended, the pandemic created delays in payments to some of the Bank's clients. The Bank of Albania has announced a "payment moratorium", therefore customers that faced liquidity problems requested a postponement of the repayment of their obligations to banks until 31.08.2020. The Bank's activity has continued without suspension during 2021, and there has been a relatively stable performance in customer receivables. After the emergence of the COVID-19 pandemic, the Bank has analyzed macro-economic changes and reflected these changes to the stress tests used to describe the impact of COVID-19 in the calculation of the related provisions.

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level.

(e) Comparative

Certain comparative amounts in the statement of financial position, profit or loss and other comprehensive income and cash flow have been reclassified or represented as a result of a change in the reclassification to reflect a better effect.

3. Going concern

Management prepared these financial statements on a going concern basis. In making, this judgement management considers the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the situation in the financial market on the operations of the Bank. In terms of financial performance, The Bank has suffured accumulated lossess in the past 3 years respectively of Lek 1,772,702,000, 1,222,380,000, 832,966,000 in 31 December 2023, 2022 and 2021. The Bank's CAR (capital adequacy ratio) at 31 December 2023 and 2022 was 19.81% and 12.50% respectively while the required minimum CAR for banks in Albania is 12%. During 2023, the bank's shareholder, Eurosig Sh.a. group, injected an additional amount of capital of ALL 2,442,239,050, respectively: on 30 June 2023: 533,138,269 ALL; 31 August 2023: 213,255,577 ALL; And, on December 29, 2023: ALL 1,695,845,204.

The Islamic Development Bank in Jeddah has signed a share sale agreement in favor of Eurosig sh.a., through which the latter has increased its shareholding in the Bank to 99.46% as of December 31, 2023, from 66.26% as of December 31, 2022.

4. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction.

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the prevailing foreign exchange rate at the date of the transaction.Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Income and expenses from banking operations

Effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost and financial assets classified as measured at FVTOCI(debt instruments). Interest income is not limited to interest-bearing financial assets,e.g zero-coupon bonds(classified as measured at amortised costs or FVTOCI) are still subject to EIR method(initial fair value is lower than nominal amount, the discount is subject to unwinding by recognition of interest revenue with EIR method).

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk,the Bank performs a revision of cash flow estimates that leads to recalculation of the gross carrying amount of financial asset. If the Bank revises its estimates of payments or receipts , it adjusts the gross carrying amount of the financial asset or amortised cost of financial liabilitity to reflect actual and revised estimated contractual cash flows. The Bank recalculates the gross carrying amout of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate. The adjustment is recognized in profit or loss as income or expenses.

4. Significant accounting policies

b) Income and expenses from banking operations (continued)

Income from financial activity

Income from financial activity, including income from financings, income from banks and other financial institutions, are recognized in profit or loss by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset.

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

Income from financial lease

Income on financial lease is recognised by applying the rate implicit in the lease to (i) the gross book value of lease receivables in stage 1 and 2 and (ii) net carrying amount of lease receivables in stage 3 of the ECL model. Income from leases is recorded within other similar income in profit or loss.

Expenses related to due to customers

The custmers' share on profit from deposits placed in the bank is allocated to the depositors in accordance with the Sharia principles through sharing profits on reinvested deposits. Payments are made to the depositors and charged to the account of customers as per their share in profits in accordance with the contractual maturities of the deposits. For the maintenance service provided for accounts from Mudarabah a certain fee is gained. The Profit Share allocation from Mudarabah transactions is paid and presented net of Mudarib Charge.

(c) Fees and commission

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be entitled for in return. The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

A. Fee income registered over time

Fees and commisiosn earned for the provision of services over a period of time are recorded based on their tenor of agreement.These fees include commission income, including account servicing fees, investment management fees, and placement fees, and relate mainly to mantainance fees.

Maintenance fee- Fees and commission earned for the managing of the instrument/product provided to the client. The provision of services over a period of time are recognized on monthly bases for the duration of the agreement.

4. Significant accounting policies (continued)

(c) Fees and commission (continued)

B. Fee income registered 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, are recognised on completion of the underlying transaction. Fees or components of fees is being divided as :

Transfers fee - Fees and commission earned for the provision of services such as transfers abroad or internal ones. 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.

Cards - Fees and commission earned for the provision of card services over a period of time are accrued based on their tenor of agreement. 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;

Tax Declaration Fee - Fees and commissions arising from negotiating or participating in the negotiation of a transaction with a third party, relating mainly to transaction and service fees. These fees are recognized on completion of the underlying transaction, generally immediately upon satisfaction of a service provided at a point in time;

Other - Include other fees manily related to bailift fees obtained from the client. This balance is usualy a one of transaction recognized at a point in time.

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9)

Date of recognition

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

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 4.D.i.A (business model asessment and SPPI test). Financial instruments are initially measured at their fair value (as defined in Note 4.d), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank adjusts the initial fair value and accounts for the Day 1 profit or loss, as described below.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income.The difference is recognized one-off at the initial recognition date. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and the deferred day one gain/loss is recognized in P/L only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liabilitiy.

Measurement categories of financial assets and liabilities

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

- Amortised cost, as explained in Note 4(d)i.A
- FVOCI, as explained in Note 4(d)i.C
- FVPL, as explained in Note 4(d)i.D

The Bank classifies and measures its trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 4(d)i.D. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading or the fair value designation is applied, as explained in Note 4(d)i.D. However, as at 31 December 2023 and 31 December 2022 there are no such financial liabilities measured at FVPL.

(e) Financial assets and liabilities

A –Investments with banks and financial institutions, Murabaha financial receivables and other financial assets at amortized cost

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

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

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel,
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

Business model assessment (continued)

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected),
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, as long as the Bank had considered all relevant information that was available at the time where the business model was assessed, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cashflows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL,unless it is an investement in equity instrument designated to FVTOCI option as of the intial recognition.

B - Financial assets based on business model or contractual cash flows characteristics

The Bank classifies financial assets based on the business model or contractual cash flows characteristics when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. These assets are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. The Bank does not hold any instruments for trading purposes.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

C - Debt instruments at FVOCI

The Bank applies under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue, impairment under ECL model or any difference arising from foreign exchange are recognized in statement of profil or loss. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. The Bank does not have such similar financial assets measured at FVOCI.

D - Financial assets at fair value through profit or loss

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established. Included in this classification are Investments in Mudaraba, which as at 31 December 2023 are nil.

E - Financial liabilities at fair value through profit or loss

Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

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

F - Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.
Financial guarantees are initially recognised in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL provision. The premium received is recognised in the income statement in *Net fees and commission income* on a straight line basis over the life of the guarantee. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. From 1 January 2018, financial guarantee contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 11.

(ii) Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition,apart from the exceptional circumstances where a change in the business model has been registered. The Bank did not reclassify any of its financial assets in 2023 and 2022.

(iii) Derecognition of financial assets and liabilities

A - Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, where the gain/loss is the difference between the consideration received and carrying amount of the old financial asset calculated as of the date of derecognition .. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.
On derecognition of a financial asset in its entirety, the difference between: (a) the carrying amount (measured at the date of derecognition) and (b) the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.
When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, where in cases of non-substantial modification the gross carrying amout is recalculated in accordance with IFRS 9:5.4.3.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(iii) Derecognition of financial assets and liabilities (continued)

B - Derecognition other than for substantial modification

Financial assets

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

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

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients. A transfer only qualifies for derecognition if either:

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(iii) Derecognition of financial assets and liabilities (continued)

B - Derecognition other than for substantial modification (continued)

Financial liabilities

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

(iv) Impairment of financial assets

A - Overview of the ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 4(d)iv.B. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 6.b.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 6.b.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 6.b. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, and Stage 3, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an Allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The bank records an Allowance for the LTECLs.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(iv) Impairment of financial assets(continued)

B - The calculation of ECLs

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

- PD - The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 7.b.
- EAD - The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 7.b.
- LGD - The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usully expressed as a percentage of the EAD. The LGD is further explained in Note 7.b.

When estimating the ECLs, the Bank considers three scenarios, an optimistic, base and pessimistic. Each of these is associated with different PDs, EADs and LGDs, as set out in Note 4(d)iv.E. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.With the exception of revolving facilities, for which the treatment is separately set out in Note 4(d)iv.E, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. The mechanics of the ECL method are summarized below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL Allowance based on the expectation of a default occurring in the 12 months following the reporting date.These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an Allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(iv) Impairment of financial assets(continued)

B - The calculation of ECLs (continued)

- Stage 3: For loans considered credit-impaired the Bank recognizes the lifetime expected credit losses for these loans.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the creditadjusted EIR.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

C - Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the Allowance that would arise if the assets were measured at amortised cost is recognised in OCI. This accumulated amount corresponds to the changes in the FVTOCI financial assets adjusted for amounts related to interest revenue and ECL impairment , FX difference. as an accumulated impairment amount, with a corresponding charge to profit or loss.

D - Purchased or originated credit impaired financial assets (POCI)

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

E - Other revolving facilities

The Bank's product offering includes retail overdraft facilities, inwhich the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does notlimit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period thatreflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future riskmitigation procedures, which could include reducing or cancelling the facilities. Based on past experience andthe Bank's expectations, the period over which the Bank calculates ECLs for these products, is seven years for retail products.
The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities issimilar to other lending products. This is based on shifts in the customer's internal credit rating, but greater emphasis is also given to qualitative factors such as changes in usage.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(iv) Impairment of financial assets(continued)

F - Forward looking information

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

- GDP growth,

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 6.b.xv

(v) Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a three year basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in Note 7.b. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as external independent appraisal.

(vi) Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred as inventory ("other assets") until recognition criteria to classify these assets as "held for sale" are fulfilled, at which moment they are measured at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

(vii) Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss Allowance, the difference is first treated as an addition to the Allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

4. Significant accounting policies (continued)

(d) Financial instruments – initial recognition and subsequent measurement (IFRS 9) (continued)

(e) Financial assets and liabilities (continued)

(viii) Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 7.b.

The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- all of its facilities has to be considered performing,
- The probation period of six months has passed from the date the forborne contract was considered performing,
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period,
- The customer does not have any contract that is more than 30 days past due.

Details of forborne assets are disclosed in Note 4.f. If modifications are substantial, the loan is derecognised, as explained above.

(e) Determination of fair value

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

- *Level 1 financial instruments* – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

4. Significant accounting policies (continued)

(e) Determination of fair value (continued)

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

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

(f) Cash and cash equivalents

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

(g) Financial receivables

Financial receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Murabaha - Financial receivables to banks are classified as Loans and advances to customers and include:
- those classified as loans and receivables;
- finance lease receivables.

Financial receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest rate method. Loans and advances also include finance lease receivables in which the Group is the lessor (see .4(j.i)). 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"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements..

4. Significant accounting policies (continued)

h) Finance lease receivable

Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised by applying the rate implicit in the lease to (i) the gross book value of lease receivables in stage 1 and 2 and (ii) net carrying amount of lease receivables in stage 3 of the ECL model. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other similar income in profit or loss.

Credit loss Allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at amortized cost and recognised through an Allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

(i) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding. 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 (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Bank's redeemable preference shares bear non-discretionary coupons and are redeemable by the holder, and are therefore included within subordinated liabilities.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Customers' deposist principally include special term deposits, where the depositors instruct the Bank to invest the funds in specific investments or on predetermined terms. These deposits are invested by the Bank in its own name under the terms of specific Mudarib contracts entered into with depositors. These special deposits, which are classified within due to customers, share the direct profit or losses of their respective investments once realised and do not, otherwise, share the Bank's profit or loss.

4. Significant accounting policies (continued)

(j) Leases (IFRS 16)

i. Bank acting as a lessee

Accounting for leases by the Bank as a lessee.

The Bank leases land, office premises, equipment and cars . Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Payments under long-term leases of land based on cadastral value of land are treated as variable lease payments that are not based on an index or a rate. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and restoration costs.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Bank as a lessor.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. The Bank routinely sells assets held for rental under operating leases when the leases are terminated. Such assets are transferred to inventories at their carrying amounts when they cease to be rented. The proceeds from sale are recognised as revenue with the corresponding cost of goods sold.

ii. Lease assets - Lessor

If the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within Murabaha - Financial receivables (see (h)).

4. Significant accounting policies (continued)

(k) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

i. Current tax

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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 recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Bank and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of equity investments at FVTOCI option, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(l) Tax exposures

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

4. Significant accounting policies (continued)

(m) Repossessed assets

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations of the Bank are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. The Bank holds the rest of the repossessed assets , i.e. enforcement of collateral over loans and advances as inventory. The Bank measures these assets initially at their cost (purchase price). At the end of each reporting period, these assets are measured at the lowest of their carrying amount or net realizable value. Gains and losses arising from changes in the net realizable value of these assets are included in profit or loss in the period in which they arise, as inventory write-downs. These assets are derecognized upon disposal or when there are no future economic benefits expected from disposal. Any gain or loss arising on de-recognition of these assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss 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 is not depreciated. Right-of-use assets are presented together with property and equipment in the statement of financial position. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 years
- Motor vehicles 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years
- Furniture and fixtures 5 years
- Leasehold improvements 5 years

4. Significant accounting policies (continued)

(n) Property and equipment (continued)

(iii) Depreciation (continued)

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(iv) Derecognition

Property and equipment isderecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other income in the income statement in the year the asset is derecognised.

(o) Intangible assets

The Bank's other intangible assets include the value of computer software.
An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Software

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. all other expenditure is expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is four years. Assets in process, if any, are not amortized until software is implemented.Amortization methods, useful lives are reviewed at each financial year-end and adjusted if appropriate.

4. Significant accounting policies (continued)

(p) 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost

(q) Financial guarantees and loan commitments

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances.They are measured at the higher of the amount initially recognized less amortization and the amount of the ECL. Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expense. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee.

(r) Employee benefits

i. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as personnel expenses in profit or loss. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Government of Albania is responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.The Bank recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

ii. Termination benefits

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

5. Adoption of new and revised International Financial Reporting Standards (IFRSs)

5.1 Standards and Interpretations effective in the current period

There are no accounting announcements which have become effective from 1 January 2023 that have a significant impact on the Entities' financial statements.
Other Standards and amendments that are effective for the first time in 2023 and could be applicable to the entity are:

- IAS 1 — Presentation of Financial Statements
- IFRS 17 – Insurance Contracts
- IFRS for Small and Medium-sized Entities (IFRS for SMEs)
- IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12- Income Taxes

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made.

5.2. Standards and interpretations issued but not yet adopted.

The International Board of Accounting Standards has issued several standards and interpretations that are effective in future accounting periods, which the company has decided not to apply in advance. The company plans to apply these standards and interpretations when they become effective.
The following standards and interpretations have been issued but are not mandatory for the current reporting period ended 31 December 2023:

- IAS 1 — Presentation of Financial Statements (Amendments regarding the classification of debt with covenants) - *Effective January 1st, 2024*
- IFRS 7 - Financial Instruments: Disclosures - *Effective January 1st, 2024*
- IFRS 16 - Leases - *Effective from January 1st, 2024*
- IAS 7- Statement of Cash Flows - *Effective from January 1st, 2024*
- IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information- *Effective from January 1st, 2024*
- IFRS S2 - Climate-related Disclosures- *Effective from January 1st, 2024*

6. Financial risk management

a) Introduction and overview

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established internal units and committees, which are responsible for developing and monitoring risk management policies in their specified areas. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

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 financial receivables and investments. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, location and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Risk Department. This unit is responsible for management of the credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries.
- Developing and maintaining the risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.

6. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

The Credit Committee of the Bank approves credit requests of LEK 120,000 thousand or less, while credit requests of more than LEK 120,000 thousand are approved by the Board of Directors of the Bank. Credit risk is monitored by the Risk Department of the Bank. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Exposure to credit risk

Maximum exposures to credit risk before collateral and other credit enhancements as at December 31, 2023 and 2022 are as follows:

	Internal Rating Grade	Notes	December 31, 2023	December 31, 2022
Carrying amount at amortized cost				
Cash and cash equivalents	A	8	2,895,661	3,122,841
Restricted balances with Central Bank	A	8	979,868	835,352
Investments with banks and financial institutions			-	-
Murabaha – financial receivables	See below	9	11,890,590	7,861,826
Unused part of the credit commitments			151,553	-
Guarantees issued to customers	A	30	460,740	40,574
Total			**16,378,411**	**11,860,593**

The Bank's Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated both qualitatively and quantitatively and afterwards this impacts the level of ECL.

Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies,* in note 7.b.

- The Bank's definition and assessment of default and cure;
- An explanation of the Bank's internal grading system;
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default);
- When the Bank considers there has been a significant increase in credit risk of an exposure;
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis;
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(i) Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets either of the following criteria:

1. Unlikeliness to pay ("UTP"): The client is flagged as defaulted due to unlikeliness to pay (indicated in default indicators file) and at the same time has at least 1 active financing, or
   a. significant financial difficulty of the issuer or obligor;
   b. a breach of contract, such as a default or delinquency in interest or principal payments;
   c. the creditor , for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the creditor would not otherwise consider;
   d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
   e. the disappearance of an active market for that financial asset because of financial difficulties; or
   f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
      i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
      ii. national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for financing assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).
2. 90 DPD: The exposure is more than 90 days past due (DPD90) and at the same time is active and marked as defaulted by UBA bank (this identification is needed because for some financings with misaligned payments/financing, the DPD counter is not correctly reflecting the past due time).

The above criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 4.d.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(ii) The Bank's internal rating and PD estimation process

The Bank's independent Risk Department operates its internal rating models. The Bank runs separatemodels for its key portfolios in which its customers are rate from 1 to 5 using internal grades. The modelsincorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilisesupplemental external information that could affect the borrower's behavior.PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9. Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

In the following tables are presented the presentation of the financial assets of the Bank:

Internal rating grade	Internal rating description	12 month PD range	Exposure at Default
Performing			
A	Performing	0.00%-8.46%	14,545,698
B	Special Mention	8.47%-13.77%	191,549
C	Substandard	13.78%-80.90%	480,402
D	Doubtful	80.91%-95.97%	153,608
E	Lost	95.98%-100.00%	394,859
Total			**15,766,116**

Murabaha financial receivables into the determined stages and ratings:

	December 31, 2023				December 31, 2022
Internal Rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
A	13,808,343	691,881	45,474	14,545,698	10,362,775
B	46,968	104,775	39,806	191,549	782,512
C	51,944	7,174	421,284	480,402	334,094
D	101,601	3,782	48,225	153,608	121,143
E	13,851	15,690	365,318	394,859	219,496
Total	**14,022,707**	**823,302**	**920,107**	**15,766,116**	**11,820,020**

(iii) Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks etc. For these relationships, the Bank's risk department analyses publicly available information such as financial information and other external data, e.g., the rating of international rating agencies(S&P) and assigns the internal rating.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(iv) Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

(v) Consumer lending and retail mortgages

Consumer lending comprises personal loans, mortgages and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

(vi) Exposure at Default

Exposure at default is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment financings, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(vii) Loss Given Default

For the loan portfolio, LGD values are assessed at least every three months by the Bank's specialized risk department. The risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Bank segments its portfolio into business and retail lending, based on key characteristics that are relevant to the estimation of future cash flows. The Bank estimates regulatory and IFRS 9 LGDs on a single basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

(viii) Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or aportfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 10 DPD. The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 7.b are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 10 days past due, the credit risk is deemed to have increased significantly since initial recognition. When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 7.), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

(ix) Grouping financial assets measured on a collective basis

As explained in Note 4.(d)(iv) dependant on the factors below, the Bank calculates ECLs either on a collective oran individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- the specific nature of the financing and its contractual and financial conditions (maturity, reference rate, etc.);
- the exposure profile until maturity in relation to potential market movements;
- the existence of collateral or guarantees; and
- the potential for default based on the internal risk rating.
- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(ix) Grouping financial assets measured on a collective basis (continued)

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's Small business lending
- Stage 1 and 2 business and retail
- Purchased POCI exposures managed on a collective basis

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal andexternal characteristics of the loans, like:

- Product type (buy to let/owner occupied, overdraft, unsecured personal loan, credit card, etc.)
- Property type (prime, standard grade, low grade)
- Geographic location/residence of the borrower
- Loan-to-value ratios
- Internal grade
- Exposure value
- Utilisation
- Exposure value
- Borrower's industry
- Collateral type

(x) Forward-looking Information

The assessment of a significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Bank has performed historical analysis and identified key economic variables impacting credit risk and expected credit losses for each portfolio.

The impact of economic variables on the probability of default, loss given default and exposure at default is determined using statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, the model also provides a best case and worst case scenario and scenario weightings to ensure non-linearities are captured. The Bank has concluded that three scenarios or less appropriately captures non-linearity. The scenario weightings are determined by a combination of statistical analysis, taking account of the range of possible outcomes each chosen scenario is representative of. The Bank considers these forecasts represent its best estimate of the possible outcomes.

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(xi) Analysis of Contractual Cash Flow Characteristics

Once the Bank determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is defined as a 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 a profit margin. This assessment will be carried out on an instrument-by-instrument basis on the date of initial recognition of the financial asset.

When assessing whether contractual cash flows are solely payments of principal and interest, the Bank has considered the contractual terms of the instrument. This will include 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. The Bank considers:

- Prepayment, extension terms
- If a claim is limited to specified assets or cash flows
- Contractually-linked instruments

(xii) Impairment General

The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results. Management exercises judgement in applying the Bank's accounting policies.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible in the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis.

(xiii) Explanation of Inputs, Assumptions and Estimation Techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition, or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD. These assumptions vary by clients type divided into Business and Retail. Expected credit losses are the discounted product of the probability of default (PD) and exposure at default (EAD)

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(xiv) Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation over the next 12 months or over the remaining lifetime of the obligation. As a rule, the lifetime probability of default is calculated using the 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter, various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the financing or portfolio of financings.

In the limited cases where some inputs are not fully available grouping, averaging and benchmarking of inputs are used for the calculation.

(xv) Sensitivity Analysis

The most significant assumptions affecting the expected credit loss Allowance are as follows:

Business portfolios

- Quarterly GDP by Production Approach, Seasonally adjusted – GDP current prices:
  - Industry
  - Real Estate Services
  - VSHB Gross Value Added
  - PBB gross Domestic Product

- Quarterly GDP by expenditure approach, constant prices
  - Final Consumption Expenditures
  - Gross fixed Capital Formation
  - Domestic Absorption
  - Net Export
  - Import
  - Export

- Retail portfolios Labour Market – Labour Force Survey:
  - Unemployment rate
  - Labour Force Participation

- Prices:
  - Consumer Price Index (CPI)
  - Producer Price Index (PPI)

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment assessment (continued)

(xv) Sensitivity Analysis (continued)

Write-off policy

The Bank writes off an asset gross carrying amount and any related Allowances for impairment losses, when the Risk Department determines that the asset is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financial receivables, write-off decisions generally are based on a product-specific past due status.

During year 2022 the Bank has written off financial receivables LEK 0 thousand (in 2021:LEK 0).

Collateral and other credit enhancements

The Bank holds collateral against financial receivables in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated on three years frequency and also when the asset is individually assessed as impaired. An estimate of the fair value of collateral held against financial receivables at December 31, 2021 and 2020 is shown in the table below.

6. Financial risk management (continued)

(b) Credit risk (continued)

Collateral and other credit enhancements (continued)

December 31, 2023	Maximum exposure to credit risk	Real Estate	Machinery, Equipment and Inventories	Cash collateral	Other	Total collateral	Net exposure	Associated ECLs
Financial assets								
Balances with Banks	2,895,661	-	-	-	-	-	2,902,307	(6,647)
Restricted balances with Central Bank	979,868	-	-	-	-	-	979,868	-
Investments with banks and financial institutions	-	-	-	-	-	-	-	-
Due from financing activities	12,929,381	26,472,736	1,831,940	77,859	4,760,840	33,143,376	11,890,590	1,038,791
Business	9,845,331	19,559,466	1,815,757	56,985	4,757,698	26,189,906	9,152,207	693,124
Retail	3,084,050	6,913,270	16,183	20,875	3,142	6,953,470	2,738,383	345,667
Unused part of the credit commitments	151,552	165,221	186	-	90,510	255,916	151,552	-
Guarantees issued to customers	460,740	-	-	229,066	160,000	389,066	460,740	-
Total	**17,417,202**	**26,637,957**	**1,832,126**	**306,925**	**5,011,350**	**33,788,358**	**16,385,057**	**1,032,144**

6. Financial risk management (continued)

(b) Credit risk (continued)

Collateral and other credit enhancements (continued)

December 31, 2022	Maximum exposure to credit risk	Real Estate	Machinery, Equipment and Inventories	Cash collateral	Other	Total collateral	Net exposure	Associated ECLs
Financial assets								
Balances with Banks	**3,122,841**	-	-	-	-	-	**3,116,194**	**6,646**
Restricted balances with Central Bank	**835,352**	-	-	-	-	-	**835,352**	-
Investments with banks and financial institutions	-	-	-	-	-	-	-	-
Mudaraba - investment funds	**8,532,186**	13,477,715	-	41,968	113,332	13,633,015	**7,861,827**	**670,359**
Due from financing activities	***5,481,713***	*8,834,132*	-	*32,115*	*113,331*	*8,979,579*	***5,075,793***	***405,920***
Retail	***3,050,473***	*4,643,583*	-	*9,853*	-	*4,653,436*	***2,786,034***	***264,439***
Unused part of the credit commitments	-	-	-	-	-	-	-	-
Guarantees issued to customers	**40,574**	-	-	-	-	-	**40,574**	-
Total	**12,530,952**	**13,477,715**	-	**41,968**	**113,332**	**13,633,015**	**11,853,947**	**677,005**

6. Financial risk management (continued)

(b) Credit risk (continued)

Collateral and other credit enhancements (continued)

Collateral generally is not required for balances with banks and financial institutions, and no such collateral was held at December 31, 2023 or 2022.

The financial effect of the collateral is being presented by dividing the value of the collateral seperately:

(i) those assets where the value of collateral are equal or overpassed the accounting value of the assets(over- collateralised), and

(ii) those assets where the value of collateral are less than the accounting value of the assets (under collateralised assets).

The tables show the values of the key forward looking economic variables/assumptions used in each of theeconomic scenarios for the ECL calculations:

December 31, 2023	Business	Retail	Total
Optimistic(25%)	52,087	56,924	109,011
Base(50%)	167,018	131,104	298,122
Pesimistic(25%)	474,019	157,640	631,659
Total	**693,124**	**345,668**	**1,038,792**

December 31, 2022	Business	Retail	Total
Optimistic(25%)	21,761	20,117	41,878
Base(50%)	358,084	206,637	564,722
Pesimistic(25%)	33,222	30,538	63,760
Total	**413,068**	**257,292**	**670,360**

The value of the collaterals for 31 December 2023 are as below:

2023	Over collateralised Assets		Under collateralised Assets	
	Accounting value of the assets	Fair Value of the collateral	Accounting value of the assets	Fair Value of the collateral
Corporate	4,051,481	13,687,989	1,575,006	520,579
SME	2,174,354	8,886,072	420,956	35,840
Physical Persons	980,853	3,466,542	642,681	43,525
Individuals	2,388,982	6,353,652	695,068	149,177
Total	**9,595,670**	**32,394,255**	**3,333,711**	**749,121**

The value of the collaterals for 31 December 2022 are as below:

2022	Over collateralised		Under collateralised	
	Accounting value of the assets	Fair Value of the collateral	Accounting value of the assets	Fair Value of the collateral
Corporate	222,492	569,000	531,705	504,576
SME	1,976,192	4,640,322	1,718,808	1,450,107
Physical Persons	471,880	1,245,402	549,203	570,171
Individuals	1,402,058	3,161,893	1,648,415	1,491,543
Total	**4,072,622**	**9,616,617**	**4,448,131**	**4,016,398**

6. Financial risk management (continued)

(b) Credit risk (continued)

Collateral and other credit enhancements (continued)

Details of assets obtained by the Bank through taking possession of collateral held as security against financial receivables are shown in Note 10. The Bank's policy is to pursue realisation of the collateral. The Bank generally does not use the non-cash collateral for its own operations.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank (together as 'Cash and balances with banks'), Due from financing activities at the reporting date is shown below:

	Cash and balances with banks				Due from financing activities			
	December 31, 2023	As a % of total	December 31, 2022	As a % of total	December 31, 2023	As a % of total	December 31, 2022	As a % of total
Carrying amount	3,875,529		3,958,193		12,929,381		8,532,186	
Concentration by sector								
Corporate	-	0%	-	0%	9,080,202	70%	5,477,279	61%
Government	2,496,077	64%	1,863,150	28%	-	0%	-	0%
Financial institutions	1,379,452	36%	2,095,043	72%	765,129	6%	4,433	0%
Retail	-	0%	-	0%	3,084,050	24%	3,050,473	38%
Total	**3,875,529**	**100%**	**3,958,193**	**100%**	**12,929,381**	**100%**	**8,532,186**	**100%**
% of concentration for each instrument	**25%**		**32%**		**77%**		**68%**	

6. Financial risk management (continued)

(b) Credit risk (continued)

Analyses of risk concentration

Concentration by location for balances with banks and financial institutions is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. The cash and balances with banks are held with the Central Bank of Albania which is rated B (2021: B) and banks and financial institutions that based on Standard & Poor's ratings were rated as follows:

	Cash and balances with banks		**Due from financing activities**	
	December 31, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Rated A to BBB+	214,467	714,312	-	-
Rated BBB to B-	2,048,691	1,933,107	-	-
Not rated	8,885	66,389	12,929,381	8,532,186
	2,272,043	**2,713,808**	**12,929,381**	**8,532,186**
Cash on hand (Note 8)	623,618	712,031	-	-
Total	**2,895,661**	**3,425,839**	**12,929,381**	**8,532,186**

Cash and balances with banks includes restricted balances with Central Bank and investments with banks and financial institutions.

The risk concentration according to the economic sectors within the portfolio of the due from financings are as below:

In thousands LEK	**December 31, 2023**		**December 31, 2022**	
	Amount	**%**	**Amount**	**%**
Trade, maintenance and repair of motor vehicles and household items	1,769,950	13.69%	2,014,342	23.86%
Retail	3,084,050	23.85%	2,921,599	37.50%
Production and distribution of electricity, gas and water	1,107,722	8.57%	627,202	5.02%
Processing Industry	1,023,844	7.92%	378,859	4.60%
Construction	2,516,389	19.46%	1,350,395	17.18%
Monetary and financial intermediation	107,312	0.83%	4,433	0.09%
Transport, storage and telecommunication	54,577	0.42%	30,487	0.37%
Agriculture, hunting, forestry	128,948	1.00%	96,285	1.64%
Collective activities, social and individual	15,706	0.12%	510	0.93%
Healthcare and social work activities	112,006	0.87%	37,828	0.52%
Education	9,260	0.07%	67,913	0.19%
Hotel and restaurants	796,042	6.16%	604,933	4.01%
Others	2,203,575	17.04%	397,399	4.08%
Total of due from financings (before provisions)	**12,929,381**	**100%**	**8,532,186**	**100%**

6. Financial risk management (continued)

(b) Credit risk (continued)

Analyses of risk concentration (continued)

Financial receivables detailed as per business segments in gross basis as of 31 December 2023 and 31 December 2022 are shown in the below tables:

	31 December 2023					
	Individuals	Corporates	SME	Physical Persons	Staff	Total
Overdraft	1,069	895,538	323,022	135,491	101	1,355,221
Financings						
Short Term	1,326	227,521	17,117	5,005	-	250,969
Medium Term	221,896	619,496	494,663	76,830	4,951	1,417,836
Long Term	2,778,612	3,923,498	1,776,159	1,422,348	117,326	10,017,943
Minus Disbursement Fee	(41,225)	(39,567)	(15,650)	(16,140)	(6)	(112,588)
Total	**2,961,678**	**5,626,486**	**2,595,311**	**1,623,534**	**122,372**	**12,929,381**

	31 December 2022					
	Individuals	Corporates	SME	Physical Persons	Staff	Total
Overdraft	3,856	-	-	-	-	3,856
Financings						
Short Term	10,010	601,632	1,062,727	55,427	140	1,729,937
Medium Term	204,885	42,434	1,133,464	44,837	13,927	1,439,547
Long Term	2,732,927	105,179	1,545,487	930,859	124,148	5,438,601
Disbursement Fee	(35,564)	(8,385)	(25,765)	(10,040)	-	(79,754)
Total	**2,916,114**	**740,861**	**3,715,913**	**1,021,083**	**138,215**	**8,532,186**

At December 31, 2023 and 2022, the Bank does not have any undrawn credit commitments.

Impairment analyses

The analysis of the impairment for the financial receivables as of December 31, 2023 and 2022 and the movements in the impairment losses are presented in Note 10. The profit rate for the financings vary from 2.0% to 15.47% per year for the foreign currency and from 1.50% to 17.30% per year in LEK (31 December 2022: from 2.3% to 13% per year in foreign currency and from 2.5% to 17% per year in LEK). The movements in the provisions for the due from financings detailed as per the business segments for 31 December 2023 and 31 December 2022 are shown in the tables below:

	December 31, 2023					
	Individuals	Corporate	SME	Physical Persons	Staff	TOTAL
Amounts at the beginning of the year	**261,956**	**10,802**	**288,975**	**106,142**	**2,483**	**670,358**
Expenses for provisions	205,296	222,467	151,907	61,217	9,215	650,102
Reversal from provisions	(132,845)	(71,332)	(24,276)	(52,777)	(436)	(281,666)
Amounts at the end of the year	**334,407**	**161,937**	**416,606**	**114,582**	**11,262**	**1,038,794**

6. Financial risk management (continued)

(b) Credit risk (continued)

Impairment analyses (continued)

	December 31, 2022					
	Individuals	**Corporate**	**SME**	**Physical Persons**	**Staff**	**TOTAL**
Amounts at the beginning of the year	**116,223**	**3,569**	**131,551**	**20,025**	**3,756**	**275,124**
Expenses for impairment	152,058	7,507	170,077	86,234	(1,241)	414,635
Reversal of impairment	(6,235)	(274)	(12,653)	(117)	(32)	(19,401)
Amounts at the end of the year	**261,956**	**10,802**	**288,975**	**106,142**	**2,483**	**670,358**

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

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

Treasury receives information from other units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid treasury bills and balances with banks and other financial institutions, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Treasury monitors compliance with local regulatory limits on a daily basis. all liquidity policies and procedures are subject to review and approval by Bank Asset and Liability Committee ('ALCO').

The Bank relies on deposits from customers and banks, and contributions from its shareholders as its primary sources of funding. While contributions from shareholders do not have specified maturities, deposits from customers and banks generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. As at December 31, 2023 the twenty largest balances due to customers represent 32.50% of the total deposits (in 2022: 23.52%).

6. Financial risk management (continued)

(c) Liquidity risk (continued)

The following table shows the Bank's financial assets and liabilities represented by the their discounted values allocated to the respective time bands in gross basis as at December 31, 2023 and 2022:

2023	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks	3,875,529	-	-	-	-	3,875,529
Due from financing activities	1,233,909	116,323	172,646	585,024	9,782,687	11,890,589
Total	**5,109,438**	**116,323**	**172,646**	**585,024**	**9,782,687**	**15,766,118**
Liabilities						
Borrowings to Banks	59,163	-	2,504	10	2,367,873	2,429,550
Due to customers	145,027	-	-	-	-	145,027
Other liabilities	4,025,234	655,440	716,451	1,351,009	4,151,937	10,900,071
Total	**4,229,424**	**655,440**	**718,955**	**1,351,019**	**6,519,810**	**13,474,648**
Liquidity gap	**880,014**	**(539,117)**	**(546,309)**	**(765,995)**	**3,262,877**	**2,291,470**
Cumulative gap	**880,014**	**340,897**	**(205,410)**	**(971,406)**	**2,291,470**	**-**

2022	Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year	Total
Assets						
Cash and balances with banks*	3,958,192	-	-	-	-	3,958,192
Due from financing activities	476,273	255,243	736,623	1,197,775	5,195,913	7,861,826
Total	**4,434,466**	**255,243**	**736,623**	**1,197,775**	**5,195,913**	**11,820,018**
Liabilities						
Borrowings to Banks	7,964	22,984	-	7,619	1,303,873	1,342,441
Due to customers	-	-	-	-	-	-
Other liabilities	3,461,070	709,430	635,923	1,785,620	3,314,519	9,906,562
Total	**3,469,034**	**732,414**	**635,923**	**1,793,239**	**4,618,393**	**11,249,002**
Liquidity gap	**965,432**	**-477,172**	**100,700**	**-595,464**	**577,520**	**571,016**
Cumulative gap	**965,432**	**488,260**	**588,960**	**-6,504**	**571,016**	**-**

Cash and cash equivalents, investments with banks and financial institutions, and restricted balances with Central Bank are presented together as 'Cash and balances with banks'.

6. Financial risk management (continued)

(c) Liquidity risk (continued)

The previous table shows the discounted cash flows on the Bank's financial instruments, on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance. The table below set out the remaining contractual maturities, undiscounted, for non-derivative financial liabilities including commitments and financial guarantees:

31 December 2023	Carrying amount	Gross nominal outflow				
		Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year
Due to banks & financial institutions	**2,429,550**	59,163	-	2,504	10	2,367,873
Borrowings to Banks	**145,027**	145,027	-	-	-	-
Due to customers	**10,900,071**	4,025,234	655,440	716,451	1,351,009	4,151,937
Commitments/ Financial guarantees	**460,740**	460,740	-	-	-	-
Total	**13,935,388**	**4,690,164**	**655,440**	**718,955**	**1,351,019**	**6,519,810**

31 December 2022	Carrying amount	Gross nominal outflow				
		Up to 1 month	1-3 months	3-6 months	Up to 1 year	Over 1 year
Due to banks & financial institutions	**1,342,441**	7,964	22,984	-	7,619	1,303,873
Borrowings to Banks	**-**	-	-	-	-	-
Due to customers	**9,906,562**	3,461,070	709,430	635,923	1,785,620	3,314,519
Commitments/ Financial guarantees	**40,574**	40,574	-	-	-	-
Total	**11,289,576**	**3,509,608**	**732,414**	**635,923**	**1,793,239**	**4,618,393**

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investments for which there is an active and liquid market. These assets can be readily used to meet liquidity requirements. all deposits in remaining maturities table of the contractual liabilities are in callable status.

6. Financial risk management (continued)

d) Market risks

Market risk is the risk that changes in market prices, such as rates and foreign exchange rates 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 optimising the return on risk.

Exposure to market rates risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in sensitivity within repricing periods and among currencies.

Interest rate re-pricing analysis

The following table presents re-pricing dates for the Bank's assets and liabilities. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates (the earlier of contractual re–pricing or maturity dates).

6. Financial risk management (continued)

d) Market risks (continued)

Interest rate re-pricing analysis (continued)

2023	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
Assets							
Cash and balances with banks	631,655	-				3,243,874	3,875,529
Due from finance activities	533,299	27,160	2,528,334	7,013,088	1,788,708		11,890,589
Total	**1,164,954**	**27,160**	**2,528,334**	**7,013,088**	**1,788,708**	**3,243,874**	**15,766,118**
Liabilities							
Due to banks and Financial Institutions	7,782	-	2,503	-	2,367,873	51,392	2,429,550
Borrowings from Banks	145,027	-	-	-	-	-	145,027
Due to customers	781,953	655,440	716,451	1,341,028	4,148,674	3,256,524	10,900,070
Total	**934,762**	**655,440**	**718,954**	**1,341,028**	**6,516,547**	**3,307,916**	**13,474,647**
Gap	**230,192**	**(628,280)**	**1,809,380**	**5,672,060**	**(4,727,839)**	**(64,042)**	**2,291,471**
Cumulative gap	**230,192**	**(398,088)**	**1,411,292**	**7,083,352**	**2,355,513**	**2,291,471**	**-**

2022	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
Assets							
Cash and balances with banks	337,361	-	-	-	-	3,620,831	3,958,192
Due from finance activities	476,273	255,243	736,623	1,197,775	5,195,913	-	7,861,826
Total	**813,634**	**255,243**	**736,623**	**1,197,775**	**5,195,913**	**3,620,831**	**11,820,018**
Liabilities							
Due to banks and Financial Institutions	7,964	22,984	0	7,619	1,303,873	-	1,342,441
Borrowings to Banks	-	-	-	-	-	-	-
Due to customers	3,461,070	709,430	635,923	1,785,620	3,314,519	-	9,906,562
Total	**3,469,034**	**732,414**	**635,923**	**1,793,239**	**4,618,393**	**-**	**11,249,002**
Gap	**(2,655,400)**	**(477,172)**	**100,700**	**(595,464)**	**577,520**	**3,620,831**	**571,016**
Cumulative gap	**(2,655,400)**	**(3,132,571)**	**(3,031,872)**	**(3,627,336)**	**(3,049,815)**	**571,016**	**-**

6. Financial risk management (continued)

(d) Market risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various rate scenarios. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

2023	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
Estimated Profit (loss) effect	70,834	(70,834)	23,555	(23,555)

2022	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp	100 bp	100 bp	100 bp
Estimated Profit (loss) effect	(36,273)	36,273	(30,498)	30,498

Interest rate movements affect retained earnings arising from increases or decreases in net income from banking operations and the fair value changes reported in profit or loss.

The equivalent weighted average interest rates for the main financial assets and liabilities are as follows:

	Equivalent weighted average interest rate					
	(LEK)		**(USD)**		**(EUR)**	
December 31	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Assets						
Due from banks and financial institutions	0.00%	2.76%	5.75%	1.69%	0.00%	2.00%
Financial receivables	7.53%	7.43%	7.30%	6.65%	7.21%	6.21%
Liabilities						
Due to banks and financial institutions	8.42%	0.00%	0.00%	0.00%	0.48%	0.00%
Due to customers	3.16%	4.02%	1.29%	0.73%	0.95%	0.54%

Foreign currency risk

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

The following table summarizes the Bank's net foreign currency position of financial assets and liabilities at December 31, 2023 and 2022, presented in LEK thousand, and a sensitivity analysis of the profits of banks due to changes in the exchange rate of LEK versus other major currencies to which the Bank has exposures.

6. Financial risk management (continued)

(d) Market risk (continued)

Foreign currency risk (continued)

December 31, 2023	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with banks	1,629,322	706,520	1,520,844	18,843	3,875,529
Due from finacing activities	6,505,286	1,337,224	4,048,080	-	11,890,590
Total	**8,134,608**	**2,043,744**	**5,568,924**	**18,843**	**15,766,119**
Liabilities					
Due to banks and financial institutions	2,393,797	29,844	5,909	-	2,429,550
Borrowings to Banks	145,027	-	-	-	145,027
Due to customers	5,131,755	573,662	5,170,943	23,711	10,900,071
Total	**7,670,579**	**603,506**	**5,176,852**	**23,711**	**13,474,648**
Net position	**464,029**	**1,440,238**	**392,072**	**(4,868)**	**2,291,471**
Cumulative Gap	**464,029**	**1,904,266**	**2,296,339**	**2,291,471**	**-**

For the sensitivity analyses against both currencies, EUR and USD please refer below:

Sensitivity analysis	Effect of FCR	Effect of FCR	Effect of FCR
LEK - +/- 10%	+/- 144,024	+/-39,207	-/+ 487
LEK - +/- 5%	+/- 72,012	+/- 19,604	-/+ 243

December 31, 2022	LEK	USD	EUR	Other	Total
Assets					
Cash and balances with banks	1,047,268	1,375,265	1,512,595	23,064	3,958,192
Due from fin. Activities	4,171,335	648,581	3,041,910	-	7,861,826
Total	**5,218,603**	**2,023,846**	**4,554,505**	**23,064**	**11,820,018**
Liabilities					
Due to banks and financial institutions	1,333,223	1,740	7,474	3	1,342,441
Borrowings to Banks	-	-	-	-	-
Due to customers	4,911,405	641,391	4,330,977	22,789	9,906,562
Total	**6,244,628**	**643,131**	**4,338,451**	**22,793**	**11,249,002**
Net position	**-1,026,025**	**1,380,715**	**216,054**	**271**	**571,016**
Cumulative Gap	**-1,026,025**	**354,690**	**570,744**	**571,016**	**-**

Sensitivity analysis	Effect of FCR	Effect of FCR	Effect of FCR
LEK - +/- 10%	+/- 138,071	+/-21,605	-/+ 27
LEK - +/- 5%	+/- 69,036	+/- 10,803	-/+ 14

6. Financial risk management (continued)

e) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 4.d.i.D. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2023			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Cash and cash equivalents	3,875,529	-	-	**3,875,529**
Financial receivables	-	-	11,890,590	**11,890,590**
Due to customers	-	-	10,900,071	**10,900,071**

An analysis of the Bank's sensitivity to an increase or decrease is as follows:

	2022			
	Fair Value Level 1	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
Cash and cash equivalents	3,122,841	-	-	**3,122,841**
Financial receivables	-	-	7,861,826	**7,861,826**
Due to customers	-	-	11,249,002	**11,249,002**

(f) Financial Receivables

Financial Receivables are net of allowances for impairment. The Bank's portfolio has an estimated fair value approximately equal to its book value due to their underlying equivalent interest rates, which approximate market rates. A significant portion of the portfolio is subject to re-pricing within a year.

Cash and cash equivalents

Cash and cash equivalents include current accounts in second tier banks. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount

Deposits and borrowings

The time deposits have an estimated fair value approximately equal to their carrying amount,because of their short-term nature and underlying interest rates, which approximate market rates. The majority of the deposits mature within one year.

6. Financial risk management (continued)

f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

g) Capital management

The Bank's regulatory capital consists of the sum of the following elements.

– Common Equity Tier 1 capital, which includes ordinary share capital, related share premiums, retained earnings and reserves after adjustment for dividends proposed after the year end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

– Additional Tier 1 capital , which includes instruments classified as equity

– Tier 2 capital, which includes qualifying

The Banks's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Bank recognises 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 stronger capital position. The Bank has complied with all externally imposed capital requirements.

6. Financial risk management (continued)

g) Capital management (continued)

Regulatory capital

The lead regulator's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The lead regulator sets individual capital guidance for each bank and banking group in excess of the minimum capital resources requirement of 12%. .

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to the Banking Law. The regulatory capital at December 31 2023 and 2022 was as follows:

	December 31, 2023	December 31, 2022
Total shareholders' fund	3,126,518	1,159,832
Deductible intangible assets	(14,352)	(16,305)
Regulatory capital (see note 1 (b))	**3,112,166**	**1,143,526**

The amounts in the table represent amounts based on Bank of Albania requirements, which differ from those amounts reported in accordance with IFRS. The financial statements prepared in accordance with Bank of Albania requirements are not finalised at the time of completion of these financial statements. However, the Management believes that the Bank's ability to continue as going concern will not be impaired.

Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In these cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%. The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum modified capital adequacy is 6%.

The Bank has complied with imposed Capital Adequacy Ratios during the period. As at 31 December 2022, the capital adequacy ratio was 11.07% (in 2021: 13.45%).

6. Financial risk management (continued)

g) Capital management (continued)

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example, cash and money market instruments with Bank of Albania have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that capital equal to 12% of the carrying amount must support it.

	31 December 2023	31 December 2022
Base capital		
Subscribed capital	4,669,415	2,227,176
Reserves	159,193	159,193
Loss of current year	(259,080)	(301,019)
Losses of prior years	(856,120)	(555,101)
Intangible fixed assets	(14,352)	(16,306)
Statutory Rezerve	(586,889)	(370,417)
Total	**3,112,167**	**1,143,526**
Additional capital		
Time subordinated liabilities	-	-
Total regulatory capital	**3,112,166**	**1,143,526**
Risk-weighted assets Credit Risk	14,631,133	8,410,991
Market Risk	282,493	196,376
Operational Risk	797,677	538,151
Total	**15,711,303**	**9,145,519**
Capital adequacy ratio	19.81%	12.50%
Minimum required capital adequacy ratio	12.00%	12.00%

Credit related commitments are taken into account and are weighted for risk using the same percentages as for assets.

7. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behaviour as used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.

2023	Within 12 months	After 12 months	December 31, 2023
Assets			
Cash and cash equivalents	2,895,661	-	2,895,661
Restricted balances with Central Bank	979,868	-	979,868
Investments with banks and financial institutions	-	-	-
Murabaha - financial receivables	2,665,913	9,224,677	11,890,590
Assets acquired through legal process	-	1,496	1,496
Property, equipment and intangible assets	-	173,919	173,919
Right of use	-	283,502	283,502
Prepaid income tax	13,877	-	13,877
Other assets	755,532	-	755,532
Total assets	**7,310,851**	**9,683,594**	**16,994,445**
Liabilities			
Due to banks and Financial Institutions	10,285	2,419,264	2,429,550
Borrowings to banks	145,027		145,027
Due to customers	6,751,397	4,148,674	10,900,071
Total Lease liability	-	303,292	303,292
Other liabilities	198,886		198,886
Total liabilities	**7,105,595**	**6,871,230**	**13,976,826**
Net	**205,256**	**2,812,364**	**3,017,619**

2022	Within 12 months	After 12 months	December 31, 2022
Assets			
Cash and cash equivalents	3,122,841	-	3,122,841
Restricted balances with Central Bank	835,352	-	835,352
Investments with banks and financial institutions	-	-	-
Murabaha - financial receivables	2,665,913	5,195,913	7,861,826
Assets acquired through legal process	-	111,877	111,877
Property, equipment and intangible assets	-	226,921	226,921
Right of use	-	15,502	15,502
Prepaid income tax	13,877	-	13,877
Other assets	385,353	-	385,353
Total assets	**7,023,336**	**5,550,213**	**12,573,548**
Liabilities			
Due to banks and Financial Institutions	38,568	1,303,873	1,342,441
Borrowings to banks	-	-	-
Due to customers	6,592,042	3,314,519	9,906,562
Total Lease liability	-	71,349	71,349
Other liabilities	127,496	-	127,496
Total liabilities	**6,758,106**	**4,689,743**	**11,447,848**
Net	**265,230**	**860,470**	**1,125,700**

8. Cash and cash equivalents

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

	December 31, 2023	December 31, 2022
Cash on hand	623,618	712,031
Current accounts with Central Bank	1,516,209	1,027,798
Current accounts with other banks	284,708	853,870
Term investments with maturities of three months or less	471,126	535,788
Less: allowance for impairment losses	-	(6,646)
	2,895,661	**3,122,841**

8.1 Impairment allowance for cash and cash equivalents

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances, and include all balances with Banks, other than cash on hand. Details of the Bank's internal grading system are explained in Note 7.b and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 7.b:

	2023				2022
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
Internal Rating Grade					
Performing	**2,895,661**			**2,895,661**	**3,122,841**
High grade	2,895,661	-	-	2,895,661	3,122,841
Standard grade	-	-	-	-	-
Sub-standard grade	-	-	-	-	-
Past due but not impaired	-	-	-	-	-
Non-Performing					
Individually Impairment	-	-	-	-	-
Total	**2,895,661**			**2,895,661**	**3,122,841**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2023	**3,122,841**			**3,122,841**
New assets originated or purchased	(227,180)	-	-	**(227,180)**
Assets repaid	-	-	-	**-**
Transfers to Stages	-	-	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	-	-	-	**-**
At 31 December 2023	**2,895,661**			**2,895,661**

8. Cash and cash equivalents (continued)

8.1 Impairment allowance for cash and cash equivalents (continued)

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 2022	**3,505,431**			**3,505,431**
New assets originated or purchased	(382,590)	-	-	**(382,590)**
Assets repaid	-	-	-	**-**
Transfers to Stages	-	-	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	-	-	-	**-**
At 31 December 2022	**3,122,841**			**3,122,841**

Restricted balances with Central Bank

For the deposits in foreing currencies, the rate is 12.5%, for those that it is not applied the rate 0% and the ratio of deposits in respective currencies against the total deposits, is up to 50%. The remaining, that the ratio is more than 50%, it applied min 20%.

Restricted balances with the Central Bank represents mandatory statutory reserve deposits and are not available for use in the Bank's day–to–day operations.

	December 31, 2023	December 31, 2022
Obligatory reserves with Central Bank	979,868	835,352
	979,868	**835,352**

9. Financial receivables

The financial receivables balances as at December 31, 2023 and 2022 are detailed as follows:

	December 31, 2023	December 31, 2022
Financial receivables at amortized cost	12,969,182	8,523,502
Accrued income	72,786	88,438
Less deferred income	(112,587)	(79,755)
Less allowances for ECL / impairment losses	(1,038,791)	(670,359)
	11,890,590	**7,861,826**

9. Financial receivables (continued)

9.1 Impairment allowances for Financial receivables

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 7.b and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note Note 7.b.

	Year 2023				Year 2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Corporate	4,202,708	235,653	422,996	**4,861,357**	**757,761**
Financial Institution	765,129	-	-	**765,129**	**-**
Physical Person	1,408,540	49,651	165,343	**1,623,534**	**1,021,083**
Retail	2,356,157	423,124	304,769	**3,084,050**	**3,050,473**
SME	1,831,675	274,889	488,747	**2,595,311**	**3,702,867**
Total	**10,564,209**	**983,317**	**1,381,855**	**12,929,381**	**8,532,185**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2023	**5,455,440**	**1,737,615**	**1,339,130**	**8,532,185**
New assets originated or purchased	6,766,055	189,283	44,527	6,999,865
Write-off	-	-	(8,529)	(8,529)
Assets derecognised or repaid (exclding write-off)	-	-	-	-
Repaid financing	(2,105,396)	(327,288)	(161,456)	(2,594,140)
Transfers from Stage 1	1,115,611	(829,807)	(285,804)	-
Transfers from Stage 2	(554,725)	676,342	(121,617)	-
Transfers from Stage 3	(112,776)	(462,828)	575,604	-
Changes to contractual cash flows due to modifications nor resulting in derecognition	-	-	-	-
FX Movement	-	-	-	-
At 31 December 2023	**10,564,209**	**983,317**	**1,381,855**	**12,929,381**

2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022	**5,723,707**	**1,293,643**	**404,162**	**7,421,512**
New assets originated or purchased	2,861,968	450,345	396,691	3,709,004
Write-off				
Assets derecognised or repaid (excluding write offs)	(1,971,452)	(704,417)	77,539	(2,598,331)
Transfers from Stage 1	(1,167,485)	834,907	332,578	-
Transfers from Stage 2	8,704	(138,130)	129,427	-
Transfers from Stage 3	0	1,266	(1,266)	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
FX movements	-	-	-	-
At 31 December 2022	**5,455,441**	**1,737,615**	**1,339,130**	**8,532,185**

9. Financial receivables (continued)

9.1 Impairment allowances for Financial receivables (continued)

Movements in the allowances for impairment are as follows:

	2023	2022
Balance at January 1	670,358	275,125
Reversal of impairment losses	376,960	395,233
Write off	(8,527)	-
Foreign exchange effect	-	-
Balance at December 31	**1,038,791**	**670,358**

9.2 Finance lease receivables

Included in the Financial receivables there are items of finance lease receivables in which the Bank is the lessor:

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Less than 1 year	10,842	5,376	10,228	5,072
Between 1 and 2 years	5,943	5,774	5,606	5,447
Between 2 and 3 years	5,943	6,129	5,606	5,782
Between 3 and 4 years	5,943	6,220	5,606	5,868
Between 4 and 5 years	3,551	6,220	3,350	5,868
More than 5 years	21,435	28,997	20,224	27,355
Present value of minimum finance lease receivable	**53,657**	**58,716**	**50,620**	**55,392**
Less unearned finance income	-	-	-	(7,643)
Net investment in finance leases, receivable	**53,657**	**58,716**	**50,620**	**55,392**
Allowance for uncollectible lease payments	(20,660)	(1,378)	(19,491)	(1,300)
Total	**32,997**	**57,338**	**31,129**	**54,092**

Finance lease receivables represent executed collateral from defaulted clients which have been leased back to thirdy party customers against an agreed schedule of repayment. Interest rate varies from 3% to 5% and have a contractual maturity from 10 to 15 years. Fair value of minimum lease payments as at 31 December 2023 is LEK 32,997 thousand (2022: LEK : 57,338 thousand).

10. Repossessed assets

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. The Bank's repossessed assets are a consequence of the acquisitions through enforcement of security over financial receivables.

Measurement of net realizable value

Property appraisers, having professional qualifications and recent experience in the location and category of the property being valued, determine the net realizable value of these assets. Although the ownership has been transferred to the Bank, certain properties are still used by the borrowers, until identification of a potential buyer. The Bank does not aim to make a profit from leasing out these properties, however agreed to rent them out with the purpose of allowing for their maintenance and preservation of the current physical conditions.

The following table shows a reconciliation from the beginning balances to the closing balances of the Bank's assets acquired through legal process.

	2023	2022
Balance at 1 January	**111,877**	**180,248**
Acquired during the year	-	40,729
Sold during the year	(111,877)	(9,674)
Transfer to Fixed Assets	-	-
Net changes in fair value from de-evaluation	1,496	(99,426)
Provision fund	-	-
Balance at 31 December	**1,496**	**111,877**

Movements in revaluation of repossessed assets for the years ended December 31, 2023 and 2022 is presented as follows:

	As at December 31, 2023	As at December 31, 2022
Balance at beginning of year	**178,444**	**79,791**
Loss on property revaluation	(176,948)	98,653
Balance at the end of the year	**1,496**	**178,444**

Movements in the provisions for impairment of repossessed assets are as follows:

	As at December 31, 2023	As at December 31, 2022
Balance at the beginning of the year	86,452	86,452
Expense for repossessed assets impairment	(86,452)	-
Balance at the end of the year	**-**	**86,452**

11. Property, equipment and intangible assets

Property, equipment and intangible assets as at December 31, 2023 and 2022 are detailed as below:

	Buildings	Office equipment	Computers & electronic equipment	Motor Vehicles	Furniture and fixtures	Intangible assets	Fixed Assets in Process	Leasehold Improvement	Total
Cost									
At December 31, 2021	**344,339**	**65,288**	**66,707**	**10,771**	**22,020**	**129,037**	**246**	**9,641**	**648,050**
Additions	-	5,425	901	-	270	-	41,121	-	**47,717**
Disposals	-	(22,713)	(176)	-	(2,515)	(48,981)	-	-	**(74,385)**
At December 31, 2022	**344,339**	**48,000**	**67,432**	**10,771**	**19,775**	**80,056**	**41,367**	**9,641**	**621,382**
Additions	-	5,758	3,568	1,712	3,842	1,799	6,860	5,944	**29,484**
Disposals	(61,493)	-	-	(3,878)	-	-	-	-	**(65,371)**
At December 31, 2023	**282,846**	**53,759**	**71,001**	**8,606**	**23,618**	**81,856**	**48,227**	**15,585**	**585,496**
Accumulated Depreciation									
At December 31, 2021	**(190,904)**	**(53,536)**	**(58,353)**	**(9,648)**	**(17,260)**	**(76,207)**	**1,769**	**(1,415)**	**(405,554)**
Charge for the year	(16,312)	(3,655)	(2,847)	(934)	(354)	(4,340)	(1,769)	(4,453)	**(34,664)**
Disposals	-	22,713	94		2,515	16,797	-	3,638	**45,757**
At December 31, 2022	**(207,216)**	**(34,478)**	**(61,106)**	**(10,582)**	**(15,099)**	**(63,750)**	**-**	**(2,230)**	**(394,461)**
Charge for the year	(17,217)	(4,761)	(3,343)	(414)	(1,820)	(3,753)	-	(1,984)	**(33,292)**
Disposals	12,299	-	-	3,878	-	-	-	-	**16,176**
At December 31, 2023	**(212,134)**	**(39,239)**	**(64,448)**	**(7,119)**	**(16,919)**	**(67,503)**	**-**	**(4,214)**	**(411,576)**
Carrying amount									
At December 31, 2022	**137,123**	**13,522**	**6,327**	**189**	**4,676**	**16,306**	**41,367**	**7,411**	**226,921**
At December 31, 2023	**70,711**	**14,520**	**6,552**	**1,487**	**6,699**	**14,353**	**48,227**	**11,370**	**173,919**

On 29 December 2023 the Bank registered the sale of the building in use as a branch in the city of Shkodra.

12. Right of-use assets

Right of use assets as at December 31, 2023 and 2022 are detailed as below:

	Buildings	Others	Total
Cost			
At January 1, 2023	**47,426**	**6,450**	**53,876**
Additions	331,849	-	331,849
Disposals	-	(6,450)	(6,450)
At December 31, 2023	**331,849**	**-**	**379,275**
Accumulated Depreciation			
At January 1, 2023	**(35,330)**	**(3,044)**	**(38,374)**
Charge for the year	3,271	-	(3,271)
Disposals	-	3,044	3,044
At December 31, 2023	**(32,059)**	**-**	**(48,347)**
Carrying amount			
At December 31, 2022	**12,096**	**3,406**	**15,502**
At December 31, 2023	**299,790**	**-**	**299,790**

	December 31, 2023	December 31, 2022
Lease liability	15,502	18,997
Additions in lease liability	284,423	-
Decrease in lease liability		
Principal lease payments	-	(3,859)
Interest on lease liability	(135)	364
	299,790	**15,502**

The balances disclosed in the table above are related to the additions and deacreases of lease liability during the year and the outstanding amount as at December 31, 2023. Please refer to the accompanying note number 18 for more detailed information regarding the maturity of the lease liabilities, incremental borrowing rate used, minimum monthly lease payments and future interest expenses.

Amounts recognized in Profit or Loss	December 31, 2023	December 31,2022
Expenses from lease liability	(135)	364
Expense relating to short-term leases	-	806
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-

Amounts recognized in statement of Cash Flows	December 31, 2023	December 31,2022
Total cash outflow for leases		14,599

The assets which the entity has recognized under IFRS 16 are related almost entirely to leases of work space for the operation of its branches. As at December 31, 2023 and for the financial year 2022, the entity does not sub-lease any of the assets recognized above.

13. Other assets

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

	December 31, 2023	December 31,2022
Prepaid expenses	73,162	22,848
Sundry assets	666,078	376,382
	739,243	**399,230**

14. Due to banks and financial institutions

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

	December 31, 2023	December 31,2022
Current accounts	51,381	7,964
Borrowings from Banks	2,377,631	1,333,880
Account for guarantee	10	12
Accrued share on profit	528	585
	2,429,550	**1,342,441**

15. Due to customers

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

	December 31, 2023	December 31,2022
Current accounts	3,265,986	2,570,558
Term deposits	7,517,718	7,251,721
Accrued profit	103,123	79,087
Other customer accounts	13,244	5,196
Total	**10,900,071**	**9,906,562**

Current accounts at December 31, 2023 include a balance of LEK 193 million (2022: LEK 63 million), which represents amounts blocked by regulatory authorities or by the Bank. Certain balances are not available for use, without prior consent of the authorities.Managed funds relate to term deposits belonging to customers, for which the Bank has assumed management responsibility. The customers assume the ultimate investment risk arising from investment of these funds.

Current accounts and term deposits by currencies are as follows:

Current accounts	December 31, 2023	December 31,2022
In USD	321,071	398,452
In LEK	881,654	745,315
In EUR	2,039,551	1,404,003
In GBP	23,710	22,789
Total	**3,265,986**	**2,570,558**

15. Due to customers (continued)

Term deposits:	**December 31, 2023**	**December 31,2022**
In USD	248,372	238,197
In EUR	3,103,514	4,098,597
In LEK	4,165,832	2,914,926
Total	**7,517,718**	**7,251,721**

2023	**Less than 1 year**	**1 to 5 years**	**More than 5 Years**	**Total**
Term Deposit	2,155,294	5,362,425	-	**7,517,718**
Total	**2,155,294**	**5,362,425**	**-**	**7,517,718**

2022	**Less than 1 year**	**1 to 5 years**	**More than 5 Years**	**Total**
Term Deposit	3,127,356	4,124,365	-	7,251,721
Total	**3,127,356**	**4,124,365**	**-**	**7,251,721**

Term deposits accounts bear an interest rate of 0.08% in 5.5% p.a. While current accounts and other customers accounts as at 31 December 2023 and 31 December 2022, bear no interest**.**

	31 December 2023		**31 December 2022**	
	min	**max**	**min**	**max**
LEK	0.40%	5.50%	0.25%	4.80%
EUR	0.01%	4.00%	0.01%	2.50%
USD	0.40%	3.00%	0.28%	1.10%

Due to customer detailed as per business segments as per 31 December 2023 and 31 December 2022 are shown in the table below:

	December 31, 2023	**December 31,2022**
Corporates	16,515	21,786
SME	2,200,250	1,498,934
Individuals	8,580,184	8,306,756
Accrued Customers' Share on Profit	103,123	79,087
Total	**10,900,071**	**9,906,562**

16. Other liabilities

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

	December 31, 2023	**December 31,2022**
Accrued expenses	3,264	6,799
Remittances in transit	175,406	114,613
Due to third parties	166	28
Other liabilities	20,050	6,058
	198,886	**127,498**

Remittances as at December 31, 2023 represent outgoing transfers in transit for which the Bank acted as intermediary.

17. Financial Lease Liability and Provisions

Litigation provisions arise out of current or potential claims or pursuits alleging non-compliance with contractual or other legal or regulatory responsibilities, which have resulted or may arise in claims from customers, counterparties or other parties in civil litigations.

	December 31, 2023	December 31,2022
Balance at January 1	**49,252**	**28,051**
Additional provision	-	21,201
Use/Reversal of provision	(20,215)	-
Balance at December 31	**29,037**	**49,252**

Finance lease liabilities from active lease contracts treated as finance lease under the light of IFRS 16, as at 31 December 2023 and 31 December 2022 are detailed as follows:

	December 31, 2023	December 31, 2022
Lease Liabilities – Current	29,123	11,279
Lease Liabilities – Non-current	245,132	10,818
Total Lease Liabilities	**274,255**	**22,097**

The lease liability and other provisions have been presented in the financial position statement as of December 31, 2023, with a total amount of Lek 303,292 thousand.This balance consists of other provisions in the amount of Lek 29,037 thousand and the lease liability in the amount of Lek 274,255 thousand. The terms and conditions of outstanding lease liabilities as of December 31, 2023 are as follows:

	Currency	Incremental borrowing rate	Year of maturity	Minimum monthly lease payments	
				In OCY	In LCY ('000)
Lease liabilities	EUR	1.08%	2024-2027	1,064	110,535
	USD	5.70%	2024-2027	0	0
	LEK	2.58%	2024-2027	0	0

Below are presented undiscounted cash outflows for the repayments of lease liabilities as per year of maturity:

	31 December 2023	31 December 2022
- Less than one year	29,123	4,368
- Between one and two years	29,123	3,860
- Between two and three years	26,923	4,724
- Between three and four years	25,365	7,602
- More than four years	322,483	2,271
Total	**433,018**	**22,825**
Less future interest expense	(158,762)	(728)
Finance lease liability	**274,256**	**22,097**

	31 December 2023	31 December 2022
Lease liability	22,097	18,997
Additions in lease liability	285,416	6,200
Principal lease payments	(9,819)	(3,463)
Interest on lease liability	-	364
FX revaluation effect	(23,439)	-
Total lease liability	**274,255**	**22,097**

18. Equity

Share capital

The registered share capital is LEK 4,669,415 thousand, divided into 2,717,701 shares with a nominal value of LEK 1,718.15. During 2023, the bank's shareholder, Eurosig Sh.a. group, injected an additional amount of capital of ALL 2,442,239,050, respectively: on 30 June 2023: 533,138,269 ALL; 31 August 2023: 213,255,577 ALL; And, on December 29, 2023: ALL 1,695,845,204. The Islamic Development Bank in Jeddah has signed a share sale agreement in favor of Eurosig sh.a., through which the latter has increased its shareholding in the Bank to 99.46% as of December 31, 2023, from 66.26% as of December 31, 2022. The shareholder structure for the year ending December 31, 2023, is disclosed in Note 1 of the financial statements.

Reserves

Reserves of LEK 120,904 thousand (2022: LEK 120,904 thousand) were created pursuant to Article 8 of the Decision No. 51, dated April 22, 1999 of the Bank of Albania, which required the appropriation of 20% of the net profit for the year, Article 213 of theLaw No. 7638, dated November 19, 1992 “On commercial companies” which required the appropriation of 5% of the net profit, and the Bank’s Statute, which required the appropriation of 10% of net profit for the year.

Nature and purpose of the reserves is as explained below:

(i) 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. On December 31, 2023, the balance is 54,491 thousand ALL, which represents 1.8% of the shareholder capital of the Bank (2022: 54,491 thousand ALL 5%). In terms of financial performance, the Bank has suffered accumulated losses in the last 3 years, respectively ALL 1,772,702,000, 1,222,380,000, 832,966,000 as of December 31, 2023, 2022 and 2021. The Bank’s CAR (capital adequacy ratio) at 31 December 2023 and 2022 was 19.81% and 12.50% respectively while the required minimum CAR for banks in Albania is 12%.

(ii) The regulatory reserve was established according to the 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 is LEK 66,413 thousand, representing 0.42% of total risk-weighted assets (2022: LEK 64,413 thousand 0.86%).

(iii) As at June 30, 2019, through a decision of Sharehlder’s Assembly no. 01 it was decided part of the profit generated from year ended December 31,2018 to be transferred to reserves, an amount of Lek 9,237,000 during 2019. As at June 28, 2020, through a decision of Sharehlder’s Assembly no. 04 it was decided part of the profit generated from year ended December 31,2019 to be transferred to reserves, an amount of Lek 2,634,000 during 2020.

19. Income from financial activity

Income from financial activity for the year ended December 31, 2023 and 2022 is detailed as below:

	Year ended December 31, 2023	Year ended December 31, 2022
Income from financings	692,821	546,592
Income from placements with banks institutions	36,550	20,450
	729,371	**567,042**

20. Income from other financial activity

Income from other financial activity for the year ended December 31, 2023 and 2022 is detailed as below:

	Year ended December 31, 2023	Year ended December 31, 2022
Income from financial leasing	454	1,087
	454	**1,087**

21. Expenses related due to customers

Expenses related due to customers for the year ended December 31, 2023 and 2022 is detailed as below:

	Year ended December 31, 2023	Year ended December 31, 2022
Due to banks and financial institutions	108,750	-
Borrowings from financial institutions	1,108	-
Due to customers	140,979	119,146
	250,837	**119,146**

22. Fees and commission income and expenses

Fees and commission income and expenses for the year ended December 31, 2023 and 2022 is detailed as below:

	Year ended December 31, 2022	Year ended December 31, 2021
Fee and commission income	64,691	66,660
Fee and commission expense	(7,275)	(6,861)
	57,416	**59,799**

	Year ended December 31, 2023	Year ended December 31, 2022
Fee income recognized in point in time		
Transfers fee	27,357	24,754
Tax declarations fee	3,208	3,091
Cards	2,857	3,102
Other	7,426	448
Fee income recognized over time	-	-
Maintenance fee	23,843	35,265
Total fee and commission income	**64,691**	**66,660**
Banking services fee	(7,128)	(6,233)
Other	(148)	(628)
Total fee and commission expense	**(7,275)**	**(6,861)**
Net fee and commission income	**57,416**	**59,799**

The Bank did not disclose the value of any open performance obligations at December 31, 2023, as its contracts with customers generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year, or provisions that allow the Bank to recognize revenue at the amount it has the right to invoice.

23. Net foreign exchange (losses)/gains

Foreign exchangegains/loss arise from the re-translation at year-end of the Bank's foreign currency position and gains and losses from transactions in foreign currencies. The Bank realized a gain of LEK 143,252 thousand from foreign currency transaction (in 2022: LEK 14,266 thousand) and a loss from revaluation of monetary position of LEK 340,371 thousand (in 2022: Income 764 thousand).

	Year ended December 31, 2023	Year ended December 31, 2022
Unrealised foreign exchange gain	97,033	(24,629)
Realised foreign exchange gains	46,219	38,895
Subtotal	**143,252**	**14,266**
Unrealised foreign exchange loss	(308,613)	(377)
Realised foreign exchange loss	(31,757)	(387)
Subtotal	**(340,371)**	**(764)**
Net foreign exchange (losses)/gain	**(197,119)**	**13,502**

23. Net foreign exchange (losses)/gains (continued)

During 2023 the exchange rate of EUR and USD currency have decreased compared with the prior year: EUR 103.88 (2022: 114.23); USD 93.94 (2022: 107.05).

24. Other Income

Additional (Loss) revenues include income generated from non-primary activities of the Bank, such as interest on operational expenses, etc., or losses from the sale of its assets.

	Year ended December 31, 2023	Year ended December 31, 2022
Net Profit / Loss from Foreign Exchange	(103,919)	29,020

25. Personnel expenses

Personnel expenses for the year ended December 31, 2023 and 2022 is detailed as below:

	Year ended December 31, 2023	Year ended December 31, 2022
Wages and salaries - Expatriate staff	-	14,460
Local employees	153,674	111,693
Social insurance	21,700	16,520
Bonuses & rewards	17,869	10,766
	193,242	**153,438**

26. Credit loss expense

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

2023	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Cash and cash equivalents	-	(6,646)	-	-	-	**(6,646)**
Murabaha financial receivables	-	198,007	-	86,703	83,725	**368,436**
Financial Guarantees	-	-	-	-	-	-
Total Impairment Loss	-	**191,361**	-	**86,703**	**83,725**	**361,789**

2022	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Cash and cash equivalents	-	2,475	-	-	-	**2,475**
Murabaha financial receivables	-	36,739	-	17,754	340,743	**395,235**
Financial Guarantees	-	-	-	-	-	-
Total Impairment Loss	-	**39,214**	-	**17,754**	**340,743**	**397,710**

27. Expense for other impairment and provisions, net

Expenses for other impairment and provisions, on a net basis for the year ending on 31 December 2023 and 31 December 2022 include the following:

	Year ended December 31, 2023	Year ended December 31, 2022
Post Gratuity service for the employees	-	28,698
Legal cases	-	545
Other provision	6,646	2,866
	6,646	**32,109**

Post gratuity service for the employees is a fund which the entity has created for the remuneration of the staff when they terminate their employment with the bank. The entity assesses each year-end the needed fund and books the charge of the year. Other balances are related to provisions for litigation cases and expected credit loss allowance for placements with other banks and financial institutions.

28. Other administrative expenses

Other administrative expenses include the following:

	Year ended December 31, 2023	Year ended December 31, 2022
Office expenses	47,663	39,929
Deposit insurance	29,226	27,350
Legal, consultancy and audit fees	16,283	20,623
Software maintenance	19,577	21,460
Swift, Reuters and on-line connections	7,021	8,025
Utilitary Expenses	5,118	5,402
Advertising and representation expenses	9,724	10,072
Bank of Albania Emergency Fund	6,072	4,464
Board of Directors and Audit Committee	8,089	7,270
Fees, taxes and duties	2,040	2,049
Telephone and mail	1,304	1,962
Travel and transportation	1,639	2,470
Security expenses	13,944	1,440
Other expenses	457	84
	168,157	**152,600**

29. Income tax

Income tax expense for the year ended 31 December 2023 and 31 December 2022 is detailed as follows

	31 December 2023	31 December 2022
Current income tax expense	-	-
Deferred tax income expense/(benefit)	-	-
Total	-	-

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. Income tax in Albania is assessed at the rate of 15% (2022: 15%) of taxable income.The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Tax rate	2022	Tax rate	2021
(Loss)/Profit before income tax		(550,322)		(337,779)
Income Tax expense at 15% **(A)**	15%	(82,548)	15%	(50,667)
Undeductible Expenses		16,690		69,708
Tax impact of non-deductible expenses **(B)**	(2%)	2,503	(2%)	10,456
Unrecognised tax losses **(C)**		(80,045)		(40,211)
Current tax expense / Effective tax rate (A+B+C)	-	-	-	-

The amount of tax losses carried forward as at December 31, 2023 is presented in the table below:

Financial Year	Annual tax Result	Loss recognized against Tax profit	Remaining tax loss to be carried forward	Expires by
31.12.2021	12,292	(12,292)	12,292	31.12.2021
31.12.2022	268,071	(268,071)	280,364	31.12.2022
31.12.2023	80,045	(80,045)	360,408	31.12.2023

In 2023, the Bank has not done any tax prepayments (2022: no tax prepayment). Prepaid income tax at December 31, 2023 was LEK 13,877 thousand (2022: LEK 13,877 thousand). Based on the local accounting law, starting from January 1, 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank. Effective from 1 January 2014, the limits determined by the Central Bank are not applicable and the impairment charges recognized in accordance with IFRS are considered as tax deductible expenses. Due to this change in the legislation, there were no temporary differences between the book value and the tax value of financial receivables as of December 31, 2022.

30. Commitments and contingencies

	December 31, 2023	December 31, 2022
Guarantees	460,740	40,574
Unused Credit Limit	151,553	258,105
Collaterals	33,788,358	13,633,015

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of credits granted.Based on management's estimate, no material losses related to guarantees outstanding at December 31, 2023 will be incurred and thus a marginal provision have been included in these financial statements.

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at December 31, 2023, and no (additional) provisions were created during 2023.

31. Related party transactions

The Bank enters into transactions with its shareholders in the ordinary course of business. The balances with minority shareholders and entities owned by them, are as follows:

	December 31, 2023	December 31, 2022
Assets		
Accounts and investments with banks and financial institutions	-	-
Financing activities	636,389	182,973
Provision for financing activities	-	-
Liabilities		
Due to customers	**2,326,114**	**1,271,158**
Faisal El Khereji	8,431	9,542
Eurosig	2,317,683	1,261,615

The balances presented above are disclosed as per the objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Immediate and ultimate parent of the Bank is Eurosig sha. The bank has no direct transactions with it's parent entity.

31. Related party transactions (continued)

Transactions with directors

Key management personnel, or directors, are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

The remuneration of directors is included in personnel expenses. It is detailed as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Salaries	42,288	10,120
Bonuses and other benefits	4,745	888
Remuneration of the Board of Directors	8,089	7,042
	55,122	**18,050**

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their business associates, or close family members, in the ordinary course of business under the same commercial and market terms, interest and commission rates that apply to non-related parties. The income and expenses arising from transactions with related parties are as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Income:		
Income from financing activities	25,159	9,030
Expenses:		
Impairment loss on Mudaraba investment funds	-	-
Customers' share on profit	103,567	34,557

32. Events after the reporting date.

There are no other subsequent events incurred that require disclosure or adjustment of the financial statements.