Banka Kombetare Tregtare sh.a.

Independent Auditors' Review Report
and
Condensed Consolidated Interim
Financial Information
as at and for the six-month period ended
30 June 2018

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Independent Auditor's Review Report

To the Shareholders and Board of Directors of Banka Kombetare Tregtare Sh.a

We have reviewed the accompanying condensed consolidated interim statement of financial position of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank" or the "Group") as of 30 June 2018 and the related condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash lows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial information in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the condensed consolidated interim financial information and recognized the revaluation differences for the six-month period ended 30 June 2018 within net profits in the condensed consolidated interim statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the share capital as at 30 June 2018 would have been increased by USD 11,490,886, retained earnings would have been decreased by USD 3,872,182, and the net profit would have been decreased by USD 7,618,704 for the six month period ended 30 June 2018. Nevertheless, this would not have affected the total shareholders' equity.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the *Basis for Qualified Conclusion* section of our report, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not give a true and fair view of the financial position of the Bank as at 30 June 2018 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Grant Thornton sh.p.k.
Tirana, Albania
10 August 2018

Kledian Kodra, FCCA

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Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of comprehensive income for the six-month period ended 30 June 2018

(amounts in USD)

	30 June 2018	31 December 2017
Assets		
Cash and balances with Central Bank	275,605,801	295,119,649
Placement and balances with banks	387,185,879	293,887,630
Treasury bills available-for-sale	193,666,598	209,396,356
Trading and available-for-sale securities	1,069,602,750	1,002,510,212
Held-to-maturity securities	167,198,937	160,524,664
Loans to banks	353,003,280	424,728,134
Loans to customers	1,161,502,753	1,172,497,193
Investment in associates	1,397,074	1,435,525
Property and equipment	39,967,366	38,905,448
Intangible assets	2,821,445	3,080,573
Other assets	60,470,439	57,251,927
Total assets	**3,712,422,322**	**3,659,337,311**
Liabilities and shareholder's equity		
Liabilities		
Customer deposits	2,939,476,758	2,867,899,348
Due to banks and financial institutions	297,096,711	343,706,001
Due to third parties	3,552,378	4,856,919
Deferred tax liabilities	242,469	431,014
Accruals and other liabilities	20,360,568	21,054,729
Subordinated debt	29,182,059	29,989,497
Total liabilities	**3,289,910,943**	**3,267,937,508**
Shareholder's equity		
Share capital	274,350,310	274,350,310
Legal reserve	16,229,339	-
Translation reserve	(262,740)	3,004,286
Fair value reserve	10,834,093	4,908,867
Retained earnings	121,360,377	109,136,340
Total shareholder's equity	**422,511,379**	**391,399,803**
Total liabilities and shareholder's equity	**3,712,422,322**	**3,659,337,311**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes set out in pages 6 to 15 that form part of the condensed consolidated interim financial information.

The condensed consolidated interim financial information was authorised for release by the Board of Directors on 25 July 2018 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skënder Emini
Head of Financial and IT Group

Banka Kombetare Tregtare sh.a.
Condensed consolidated interim statement of comprehensive income for the six-month period ended 30 June 2018
(amounts in USD)

	Six-month period ended 30 June 2018	**Three-month period ended 30 June 2018**	**Six-month period ended 30 June 2017**	**Three-month period ended 30 June 2017**
Interest				
Interest income	77,209,600	38,479,173	63,148,724	32,639,310
Interest expense	(14,182,558)	(6,946,479)	(13,015,097)	(6,653,497)
Net interest margin	**63,027,042**	**31,532,694**	**50,133,627**	**25,985,813**
Non-interest income, net				
Fees and commissions, net	10,728,246	5,695,990	9,779,187	4,800,815
Foreign exchange revaluation, net	(6,245,374)	(1,184,912)	(7,685,473)	(7,409,083)
Foreign exchange trading activities income, net	(2,063,376)	(1,036,922)	589,760	333,085
Securities trading gain, net	1,069,020	338,046	3,323,078	1,418,536
Other (expense)/income, net	(3,690,498)	(2,711,906)	(1,489,371)	(924,576)
Total non-interest income, net	**(201,982)**	**1,100,296**	**4,517,181**	**(1,781,223)**
Operating expenses				
Personnel expenses	(9,884,389)	(5,085,551)	(8,497,774)	(4,302,286)
Administrative expenses	(14,616,712)	(7,673,792)	(11,165,061)	(6,229,806)
Depreciation and amortization	(2,278,694)	(1,138,683)	(1,780,287)	(912,926)
Total operating expenses	**(26,779,795)**	**(13,898,026)**	**(21,443,122)**	**(11,445,018)**
Impairment of financial assets	(1,250,817)	(7,706,699)	(3,343,451)	776,094
Profit before taxes	**34,794,448**	**11,028,265**	**29,864,235**	**13,535,666**
Income tax	(5,562,011)	(1,814,042)	(4,724,013)	(2,146,253)
Net profit for the period	**29,232,437**	**9,214,223**	**25,140,222**	**11,389,413**
Foreign currency translation differences	(3,267,026)	(430,700)	3,727,822	1,849,458
Net change in fair value reserves	5,925,226	3,662,259	11,182,468	390,477
Other comprehensive income for the period, net of income tax	**2,658,200**	**3,231,559**	**14,910,290**	**2,239,935**
Total comprehensive income for the period	**31,890,637**	**12,445,782**	**40,050,512**	**13,629,348**

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes set out in pages 6 to 15 that form part of the condensed consolidated interim financial information.

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2017	**250,000,000**	**-**	**(1,823,607)**	**762,502**	**98,400,277**	**347,339,172**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	24,350,310	-	-	-	(24,350,310)	**-**
Dividend payment					(30,000,000)	**(30,000,000)**
Appropriation of year 2016 translation difference	-	-	-	-	(1,823,607)	**(1,823,607)**
Adjustment of retained earnings with June 2017 exchange rate	-	-	-	-	5,833,730	**5,833,730**
Total transactions with owners recorded in equity	*24,350,310*	-	-	-	*(50,340,187)*	***(25,989,877)***
Comprehensive income for the period						
Net profit for the period	-	-	-	-	25,140,222	**58,876,500**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	11,182,468	-	**11,182,468**
Foreign currency translation differences	-	-	3,727,822	-	-	**3,727,822**
Total other comprehensive income	-	-	3,727,822	11,182,468	-	**14,910,290**
Total comprehensive income for the period	-	-	*3,727,822*	*11,182,468*	*25,140,222*	***40,050,512***
Balance as at 30 June 2017	**274,350,310**	**-**	**1,904,215**	**11,944,970**	**75,545,037**	**363,744,532**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 15 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2018
(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2017	**274,350,310**	**-**	**3,004,286**	**4,908,867**	**109,136,340**	**391,399,803**
Changes on initial application of IFRS 9 (note 5)	**-**	**-**	**-**	**-**	**(6,137,861)**	**(6,137,861)**
Restated balance as at 1 January 2018	**274,350,310**	**-**	**3,004,286**	**4,908,867**	**102,998,479**	**385,261,942**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	-	-	-	-	-	**-**
Creation of legal reserve		16,229,339			(16,229,339)	**-**
Dividend payment					-	**-**
Appropriation of year 2017 translation difference	-	-	-	-	3,004,286	**3,004,286**
Adjustment of retained earnings with June 2018 exchange rate	-	-	-	-	2,354,514	**2,354,514**
Total transactions with owners recorded in equity	-	*16,229,339*	-	-	*(10,870,539)*	***5,358,800***
Comprehensive income for the period						
Net profit for the period	-	-	-	-	**29,232,437**	**29,232,437**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	5,925,226	-	**5,925,226**
Foreign currency translation differences	-	-	(3,267,026)	-	-	**(3,267,026)**
Total other comprehensive income	-	-	(3,267,026)	5,925,226	-	**2,658,200**
Total comprehensive (loss)/income for the period	-	-	*(3,267,026)*	*5,925,226*	*29,232,437*	***31,890,637***
Balance as at 30 June 2018	**274,350,310**	**16,229,339**	**(262,740)**	**10,834,093**	**121,360,377**	**422,511,379**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 15 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2018
(amounts in USD)

	Six-month period ended 30 June 2018	Six-month period ended 30 June 2017
Cash flows from operating activities:		
Profit before taxes	34,794,448	29,864,235
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest expense	14,182,558	13,015,097
Interest income	(77,209,600)	(63,148,724)
Depreciation and amortization	2,278,694	1,780,287
Gain on sale of treasury bills	(45,537)	(77,360)
Gain on sale of non-current assets	(58,792)	(45,214)
Gain on recovery of lost loans	(250,345)	(243,565)
Write-off of property and equipment	10,024	278
Write-off of loans to customers	10,711,378	4,036,845
Write off of fixed assets and repossessed assets	-	5,600
Provision on other debtors	2,127,266	1,202,676
Reversal of other debtors	(35,776)	(50,472)
Movement in the fair value reserve	5,854,281	10,341,689
Impairment of financials assets	1,250,817	3,343,451
Cash flows from operating profits before changes in operating assets and liabilities	(6,390,584)	24,823
(Increase)/decrease in operating assets:		
Restricted balances with central banks	3,436,632	(5,864,203)
Placements and balances with banks	207,276,032	17,499,646
Loans and advances to banks	83,460,807	(13,770,311)
Loans and advances to customers	29,763,581	(14,533,458)
Other assets	(3,964,725)	(4,517,902)
	319,972,327	(21,186,228)
Increase/(decrease) in operating liabilities:		
Customer deposits	(7,710,486)	(2,921,493)
Due to third parties	(1,453,811)	(1,123,514)
Accruals and other liabilities	1,532,451	2,442,133
	(7,631,846)	(1,602,874)
Divident payment, net	**-**	**(28,500,000)**
Interest paid	(13,767,474)	(12,982,443)
Interest received	71,438,380	56,160,663
Income taxes paid	(8,380,971)	(5,356,533)
Net cash flows from operating activities	**355,239,832**	**(13,442,592)**
Cash flows from investing activities		
Purchases of investment securities	(102,848,768)	(167,422,111)
Purchases of treasury bills	(196,259,721)	(18,979,467)
Investment in associates	78,740	25,360
Purchases of property and equipment	(2,017,711)	(1,710,662)
Proceeds from sale of property and equipment	83,297	272
Proceeds from sale of investment securities	64,160,318	233,384,260
Proceeds from sale of treasury bills	21,651,780	25,450,079
Net cash flows used in investing activities	**(215,152,065)**	**70,747,731**
Cash flows from financing activities		
Proceeds from short term borrowings	(56,655,437)	(12,985,056)
Subordinated debt	(1,640,954)	(528,507)
Net cash from financing activities	**(58,296,391)**	**(13,513,563)**
Net change in cash and cash equivalents	**81,791,376**	**43,791,576**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)	115,682	(6,938,855)
Cash and cash equivalents at the beginning of the year	**335,441,946**	**218,528,323**
Cash and cash equivalents at the end of the period	**417,349,004**	**255,381,044**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes set out in pages 6 to 15 that form part of the condensed consolidated interim financial information.

1. General

Banka Kombetare Tregtare sh.a (the "Bank") is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in Albania and in Kosovo.

2. Share capital

The Bank's share capital is issued and maintained in United States Dollars ("USD") as allowed by the legislation in Albania as well as by a special Law no.8634 between the Bank's shareholders and the Republic of Albania on the Bank's privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

Upon the Shareholder's Decision dated 27 March 2018, the Bank created legal reserves of Lek 1,754,878,444 thousand (equivalent of USD 16,586,753). The remaining part of statutory profit for the year 2017 was kept as retained earnings.

As at 30 June 2018 and 31 December 2017, the registered share capital was USD 274,350,310 divided into 22,214,600 shares with a nominal value of USD 12.35, while the shareholding structure was as follows:

	30 June 2018			***31 December 2017***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	22,214,600	274,350,310	100	22,214,600	274,350,310	100

3. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Bank as at and for the year ended 31 December 2017.

4. Functional and presentation currency

The financial statements are prepared in Albanian Lek "Lek" which is the currency of the primary economic environment in which the Bank operates (its functional currency). For reporting purposes these condensed consolidated interim financial statements are presented in USD which is the presentation currency.

The results and financial position of the Bank are translated in the presentation currency by translating (i) assets and liabilities at the closing rate at the date of that statement of financial position; and (ii) income and expenses at exchange rates at the dates of the transactions. All resulting exchange differences from the translation to the presentation currency are recognised in other comprehensive income.

The main exchange rates as at the end of each reporting period were as follows:

	30 June 2018	**31 December 2017**	**30 June 2017**
USD/LEK	108.13	111.10	116.30
EUR/LEK	125.93	132.95	132.59

5. Significant accounting policies

(a) Changes in accounting policies

The Group has adopted International Financial Reporting Standard 9 "Financial Instruments" (hereafter referred as IFRS 9) as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.
The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.
Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period.
year, and are as follows:

IFRS 9 "Financial Instruments"

1) Classifications of the financial instruments

Classification and measurement of financial instruments on or after 1 January 2018 is based on new criteria that take into account the contractual cash flows of financial instruments and the business model in which they are managed. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit and loss (FVPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

i. Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)
As per the new standard, one of the conditions for financial assets to be classified either under 'amortised cost' or 'Fair Value Through Other Comprehensive Income ("FVOCI")' category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank has performed the SPPI test and has determined the business models for its financial assets.

ii. Business model assessment
There are three business models under IFRS 9 – 'Held to Collect ("HTC")', 'Held to Collect and Sell ("HTCS")' and 'Other ("Other BM")'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortised cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income ("FVOCI").
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss ("FVTPL").

5. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

1) Classifications of the financial instruments (continued)

The Bank has assessed the business model for its financial assets as follows;

Treasury
Treasury assets as at 31 December 2017 consist of cash or equivalents, Government Bonds, Investment securities such as Eurobonds, Bonds and Certificates.

The Bank also considers Loans to banks such as Syndicated Loans, Bilateral Loans and Murabaha as treasury products.

Investment securities are accounted for depending on their classification as either Held-to-Maturity (“HTM”), or Available-for-Sale (“AFS”) and in some cases as Held-for-Trading (“TRD”).

The business model of the Bank under IFRS 9 is:
- "HTC" for HTM products. Such products shall be measured at amortised cost;
- “HTCS” for AFS products. Such products shall be measured at FVOCI; and
- “Other BM” for TRD products and shall be measured at FVTPL.

Retail
The Retail assets as at 31 December 2017 consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the Retail assets is not a critical aspect in the Bank’s management of the portfolio.
The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

Corporate
The Corporate assets as at 31 December 2017 consist of various financing facilities to corporates (e.g. Cash loans, Non-cash loans, Agro loans, Project & structured finance, Business credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Corporate assets is not a critical aspect in the Bank’s management of the portfolio.
The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

5. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

1) Classifications of the financial instruments (continued)

Based on selected business models, the Bank has decided to classify its financial assets into following categories as at 1 January 2018:

Portfolio reviewed as at 31 December 2017	**IAS 39 classification Measurement**		**SPPI Test**	**Business Model**	**IFRS 9 Classification measurement**	**Conclusion**
Treasury						
Cash and other advances to banks	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified
Placement and balances with banks	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified
Treasury bills	AFS	FVOCI	Expected to meet SPPI criteria	Held to collect and sell	FVOCI	No financial impact identified
Available to sale Securities	AFS	FVOCI	Expected to meet SPPI criteria	Held to collect and sell	FVOCI	No financial impact identified at this stage. However any new instruments failing the SPPI test in the future will be measured at FVPL with consequential P&L volatility due to change in FV.
Held to maturity Securities	HTM	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	
Loans to Banks	LAR	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	Only 2% of loans to bank portfolio were sold in 2018, 3% in 2017 and 13% in 2016. Given their frequency and insignificance in prior years the sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows. More over the Bank's management intention is to keep these assets until maturity.
Loans to customers						
Retail and corporate Loans	LAR	AC	Expected to meet SPPI criteria	Held to collect contractual cash flows	AC	No financial impact identified

5. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

2) IFRS 9 Expected Credit Loss Provisioning

The International Financial Reporting Standards (IFRS 9) is a new set of standards which will replace the IAS 39 regulatory framework. These new requirements are the core changes that will impact banks on the short term as they came into effect at the beginning of 2018. In particular, IFRS 9 raises new provision and impairment requirements in IFRS 9 which are based on an expected credit loss model.

An entity shall measure expected credit losses of a financial instrument in a way that reflects:
(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank will apply IFRS 9 on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 is USD 6,137,861, or 12.3% more than the provisions allocated under IAS 39.

Following the implementation of the IFRS 9 requirements, as at 30 June 2018 the total provisions amount to USD 55,921,887, or equivalently 1.84% of the total exposure of the financial assets.

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This credit quality depends on the extent of credit deterioration since initial recognition and will be spread over three buckets.

- "Bucket 1" comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;
- "Bucket 2" comprises of assets that have suffered significant deterioration since initial recognition;
- "Bucket 3" concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the bucket it was assigned to. We have the following two measure bases:
- ECL over one year for assets in bucket 1;
- ECL over remaining lifetime for assets in bucket 2 and bucket 3.

The bucket assignment is done according to the following rules: - Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to "Bucket 3". An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).
- Qualitative factors: IFRS 9 has advised to take into account qualitative factors such as watch lists or financial analysis by experts. Similarly to the previous case, there is also a second time threshold. In case the asset has more than 30 days overdue, it is assigned to "Bucket 2".
- Absolute Threshold: if the rating of the counterparty is above a specific pre-defined absolute threshold, it is assigned to "Bucket 2"
- Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to "Bucket 2".
- All assets that are not in the previous cases are assigned to "Bucket 1"

5. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

2) IFRS 9 Expected Credit Loss Provisioning

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

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

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.

i. Probability of Default (PD)

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon.

Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL.

The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020, were considered in modelling of PIT PD.

For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in bucket 2 (NRB2) is higher than for bucket 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

The Bank is in the process of developing internal PIT PD based on the Bank's historical performance and expects to obtain the final results before the year ending 31 December 2018. The Bank does not expect significant variations between the PIT PD estimated based on the Bank's historical performance and the PIT PD estimated by using the external default rate data for each relevant sector.

ii. Loss Given Default (LGD)

The Bank assumed the fixed Based Estimates. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD estimate: Eligible financial collateral (0%), secured (25%), senior unsecured (45%) and subordinated unsecured (75%). When an account has collateral(s) belonging to the same Basel LGD segment, the LGD value assigned to that segment is used for all accounts under the concerning counterparty. In the case where an account has several types of collateral, the collateral value-weighted LGD is used for all accounts under the concerning counterparty. For the Treasury and Project and Structured Finance portfolios, LGD values are assigned on an asset type level.

The Bank is in the process of developing internal LGD rates based on the Bank's historical performance and expects to obtain the final results before the year ending 31 December 2018. The Bank does not expect significant variations between the LGD estimated based on the Bank's historical performance and the LGD estimated by using the external fixed based estimates for each relevant sector.

iii. Exposure at Default (EAD)

The Bank assumed no Point-in-Time cycle dependency in EAD estimates.

For off balance sheet exposures, it is required that provisions are held against undrawn commitments.

iv. Expected Credit Loss (ECL)

IFRS9 ECL is a probability weighted average of three economic forecasts, namely Baseline, Best and Adverse. The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules.

5. Significant accounting policies (continued)

(a) Changes in accounting policies (continued)

2) IFRS 9 Expected Credit Loss Provisioning

v. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The most significant impact on the Group's financial statements from the implementation of IFRS 9 results from the new impairment requirements.

The total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Banks's equity at 1 January 2018 is approximately USD 6,137,861, or 12.3% more than the current provisions allocated under IAS39.

As at 1 January 2018 the total provisions on the financial assets amount to USD 55,921,887, or equivalently 1.84% of the total exposures.

The Bank has decided to not restate comparative periods at initial application of IFRS 9. Implementation of IFRS 9 and change of accounting policy for the impact of the opening balance of the Bank on 1 January 2018 on asset side and equity side as presented in the following tables:

Assets	**IAS 39 carrying amount 31 December 2017**	**Re-measurements**	**IFRS 9 carrying amount 1 January 2018**
Cash and balances with Central Bank	295,119,649	-	295,119,649
Placement and balances with banks	293,887,630	-	293,887,630
Treasury bills available-for-sale	209,396,356	-	209,396,356
Trading and available-for-sale securities	1,002,510,212	435,063	1,002,075,149
Held-to-maturity securities	160,524,664	135,930	160,388,734
Loans to banks	424,728,134	827,877	423,900,257
Loans to customers	1,172,497,193	4,578,049	1,167,919,144
Investment in associates	1,435,525	-	1,435,525
Property and equipment	38,905,448	-	38,905,448
Intangible assets	3,080,573	-	3,080,573
Other assets	57,251,927	160,942	57,090,985
Total	**3,659,337,311**	**6,137,861**	**3,653,199,450**

Shareholder's equity	**31 December 2017**	**Restatement of opening balance**	**1 January 2018**
Share capital	274,350,310	-	274,350,310
Translation reserve	3,004,286	-	3,004,286
Fair value reserve	4,908,867	-	4,908,867
Retained earnings	109,136,340	6,137,861	102,998,479
Total shareholder's equity	**391,399,803**	**6,137,861**	**385,261,942**

5. Significant accounting policies (continued)

(b) Summary of significant accounting policies

The accounting policies applied by the Bank in these condensed consolidated interim financial information are the same as those applied by the Bank in its consolidated financial statements as at and for the year ended 31 December 2017, except for the initial application of IFRS 9.

The costs that are incurred evenly during the financial year are anticipated or deferred in the interim financial information only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

6. Estimates

The preparation of this condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017.

7. Financial risk management

During the six months ended 30 June 2018 the Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2017.

8. Fair value of financial assets

The Bank's Trading and available-for-sale securities portfolio as at 30 June 2018 includes financial assets available for sale amounting USD 1,067,367,355 (31 December 2017: USD 1,002,510,212) and financial assets held for trading amounting USD 2,235,395 (31 December 2017: nil).

9. Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

As at 31 December 2017 the impairment for loan losses was USD 49,887,965.

Following the implementation of IFRS9 requirements, as at 1 January 2018 the total provisions on the financial assets amount to USD 55,921,887, or equivalently 1.84% of the total exposures.

10. Seasonality of operations

The Bank's activity is not subject to seasonal fluctuations.

11. Income tax

The Bank's effective tax rate for the six months ended 30 June 2018 was 15.99 per cent (for the six months ended 30 June 2017: 15.82 per cent), while the income tax rate in Albania is 15%.

12. Contingencies

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 30 June 2018.

13. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 30 June 2018. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Albania Leasing, Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding. Related parties with Albtelecom represent two companies financially dependent from Albtelecom for their loan repayment.

Balances and transactions with related parties

	30 June 2018	31 December 2017
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	96,614	15,164,172
Placements with Aktifbank	109,628,784	99,867,949
Loans to customers:		
KEDS / KESCO	431,900	591,802
ALBtelecom	9,952,122	10,515,796
Albania Leasing	247,128	298,015
Related Parties with Albtelecom	31,304	50,696
Prepaid expenses to Calik Holding	11,908	-
Other assets:		
Receivables from ALBtelecom Sh.a	19,992	5,863
Total assets	**120,419,752**	**126,494,293**
Liabilities		
Customer deposits:		
ALBtelecom Sh.a.	545,586	498,097
Total liabilities	**545,586**	**498,097**

13. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Six months period ended 30 June 2018	Six months period ended 30 June 2017
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	-	50,859
KEDS / KESCO	13,627	19,095
ALBtelecom Sh.a.	296,750	351,531
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	-	477,115
Albania Leasing	6,931	11,698
Aktifbank	1,484,072	83,366
Related Parties with Albtelecom	119	9,272
Interest expenses for:		
Albtelecom Sh.a. and Eagle Mobile Sh.a.	(254)	(157)
Aktifbank	-	(117,510)
Albania Leasing	-	(1,427)
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	352	-
KEDS / KESCO	4,545	-
Calik Enerji Sanayi Ve. Ticaret A.S	35,345	33,837
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	147,670	74,788
Other income:		
Operating lease income from ALBtelecom Sh.a.	33,678	31,668
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(704,842)	(495,990)
Net	**1,317,993**	**528,145**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses and is detailed as follows:

	Six-month period ended 30 June 2018	Six-month period ended 30 June 2017
Directors	61,497	54,706
Executive officers	1,460,969	1,411,156
	1,522,466	**1,465,862**

The remuneration of directors and executive officers for the year ended 31 December 2017 was USD 3,075,149.

As at 30 June 2018, the total deposits of directors held with the Bank were USD 1,292,530 (31 December 2017: USD 1,174,069), while the outstanding loans granted to directors were USD 425,138 (31 December 2017: USD 261,098).

14. Subsequent events

There are no events subsequent to the reporting date that would require either adjustments or additional disclosures in the condensed consolidated interim financial information.