Banka Kombetare Tregtare Sh.a.

Independent auditor’s report and
Consolidated financial statements
as at and for the year ended 31 December 2016

Contents

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Independent Auditor's Report

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

Qualified Opinion

We have audited the consolidated financial statements of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank" or the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion' section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2016, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the consolidated financial statements and recognized the revaluation differences for the year ended 31 December 2016 within the net profits in the consolidated 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 31 December 2016 would have been decreased by USD 32,954,653, retained earnings would have been increased by USD 27,516,085 and the net profit would have been increased by USD 5,438,568 for the year ended 31 December 2016. Nevertheless, this would not have affected the total shareholders' equity.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Kledian Kodra, FCCA

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Tirana, Albania
23 February 2017

Banka Kombetare Tregtare Sh.a.

Consolidated statement of financial position as at 31 December 2016
(Amounts in USD)

	Notes	31 December 2016	31 December 2015
Assets			
Cash and balances with Central Bank	7	238,956,317	230,545,546
Placement and balances with banks	8	182,831,892	156,716,297
Treasury bills available-for-sale	9	151,067,452	169,428,720
Trading and available-for-sale securities	10	895,017,446	787,382,041
Held-to-maturity securities	11	129,537,206	156,558,947
Loans to banks	12	355,013,362	249,292,090
Loans to customers	13	1,007,063,126	917,006,930
Investment in associates	14	1,265,678	1,309,175
Property and equipment	15	18,961,617	20,445,790
Intangible assets	16	1,651,692	1,203,635
Other assets	17	37,275,880	40,024,082
Total assets		**3,018,641,668**	**2,729,913,253**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	18	2,348,186,010	2,222,648,807
Due to banks and financial institutions	19	276,910,754	168,365,729
Due to third parties	20	4,672,432	2,828,259
Deferred tax liabilities	21	1,338,585	722,574
Accruals and other liabilities	22	11,408,765	14,488,478
Subordinated debt	23	26,441,225	27,291,374
Total liabilities		**2,668,957,771**	**2,436,345,221**
Shareholder's equity			
Share capital	24	250,000,000	206,911,900
Translation reserve	24	(1,823,607)	(2,229)
Fair value reserve	24	762,502	976,965
Retained earnings	24	100,745,002	85,681,396
Total shareholder's equity		**349,683,897**	**293,568,032**
Total liabilities and shareholder's equity		**3,018,641,668**	**2,729,913,253**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 62.

The consolidated financial statements were authorised for release by the Board of Directors on 18 January 2017 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(Amounts in USD)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest			
Interest income	25	123,681,345	127,974,130
Interest expense	26	(26,691,013)	(35,986,510)
Net interest margin		**96,990,332**	**91,987,620**
Non-interest income, net			
Fees and commissions, net	27	14,575,792	11,888,126
Foreign exchange revaluation, net	28	4,756	1,985,070
Foreign exchange trading activities income, net		2,570,981	361,519
Securities trading gain, net		23,587,643	1,258,347
Other (expense) / income, net	29	(1,832,583)	(2,745,843)
Total non-interest income, net		**38,906,589**	**12,747,219**
Operating expenses			
Personnel expenses	30	(16,792,205)	(16,416,907)
Administrative expenses	31	(23,400,068)	(20,477,657)
Depreciation and amortization	15,16,17	(4,045,379)	(4,159,482)
Total operating expenses		**(44,237,652)**	**(41,054,046)**
Impairment of loans	13	(22,247,372)	(4,861,058)
Profit before taxes		**69,411,897**	**58,819,735**
Income tax	32	(10,969,611)	(8,955,653)
Net profit for the year		**58,442,286**	**49,864,082**
Foreign currency translation differences		(1,821,378)	3,401,485
Net change in fair value reserves		(214,463)	4,812,470
Other comprehensive income/(expense) for the year, net of income tax		**(2,035,841)**	**8,213,955**
Total comprehensive income for the year		**56,406,445**	**58,078,037**

The consolidated statement of profit or loss and comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 62.

Consolidated statement of changes in equity for the year ended 2016

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2015	**166,403,900**	**-**	**(3,403,714)**	**(3,835,505)**	**87,470,104**	**246,634,785**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	40,508,000	-	-	-	(40,508,000)	**-**
Appropriation of year 2014 translation difference	-	-	-	-	(3,403,714)	**(3,403,714)**
Adjustment of retained earnings with 2015 year end exchange rate	-	-	-	-	(7,741,076)	**(7,741,076)**
Total transactions with owners recorded in equity	40,508,000	-	-	-	(51,652,790)	**(11,144,790)**
Comprehensive income for the year						
Net profit for the year	-	-	-	-	49,864,082	**49,864,082**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	4,812,470	-	**4,812,470**
Foreign currency translation differences	-	-	3,401,485	-	-	**3,401,485**
Total other comprehensive income	-	-	3,401,485	4,812,470	-	**8,213,955**
Total comprehensive income for the year	-	-	*3,401,485*	*4,812,470*	*49,864,082*	***58,078,037***
Balance as at 31 December 2015	**206,911,900**	**-**	**(2,229)**	**976,965**	**85,681,396**	**293,568,032**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 62.

Consolidated statement of changes in equity for the year ended 2016

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2016	**206,911,900**	**-**	**(2,229)**	**976,965**	**85,681,396**	**293,568,032**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	43,088,100	-	-	-	(43,088,100)	**-**
Appropriation of year 2015 translation difference	-	-	-	-	(2,229)	**(2,229)**
Adjustment of retained earnings with 2016 year end exchange rate	-	-	-	-	(288,351)	**(288,351)**
Total transactions with owners recorded in equity	*43,088,100*	-	-	-	*(43,378,680)*	***(290,580)***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	58,442,286	**58,442,286**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	(214,463)	-	**(214,463)**
Foreign currency translation differences	-	-	(1,821,378)	-	-	**(1,821,378)**
Total other comprehensive income	-	-	(1,821,378)	(214,463)	-	**(2,035,841)**
Total comprehensive income for the year	-	-	*(1,821,378)*	*(214,463)*	*58,442,286*	***56,406,445***
Balance as at 31 December 2016	**250,000,000**	**-**	**(1,823,607)**	**762,502**	**100,745,002**	**349,683,897**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 62.

Consolidated statement of cash flows for the year ended 31 December 2016

(Amounts in USD)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities:			
Profit before taxes		69,411,897	58,819,735
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	26,691,013	35,986,510
Interest income	25	(123,681,345)	(127,974,130)
Depreciation and amortization	15,16,17	4,045,379	4,159,482
Gain on sale of property and equipment		(217,423)	(29,508)
Gain on sale of treasury bills		(66,455)	(125,565)
Gain on sale of non-current assets		(36,686)	(19,469)
Gain on recovery of written-off loans to customers		(103,437)	(181,520)
Write-off of property and equipment		35,141	31,226
Write-off of loans to customers		816,442	4,772,607
Write off of fixed assets and repossessed assets		586,135	836,340
Provision on other debtors		1,646,204	1,368,417
Movement in the fair value reserve		(202,695)	4,484,777
Impairment of loans	13	22,247,372	4,861,058
Cash flows from operating profits before changes in operating assets and liabilities		1,171,542	(13,010,040)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(17,818,717)	12,913,439
Placements and balances with banks		(2,189,060)	(12,195,414)
Loans to banks		(113,454,979)	(90,352,799)
Loans to customers		(132,314,056)	(83,790,548)
Other assets		641,295	(1,151,144)
		(265,135,517)	(174,576,466)
Increase/(decrease) in operating liabilities:			
Customer deposits		176,902,317	264,274,341
Due to third parties		1,958,264	881,808
Accruals and other liabilities		522,225	1,101,096
Subordinated debt		(412,840)	10,558,952
		178,969,966	276,816,197
Interest paid		(31,229,068)	(39,198,610)
Interest received		126,257,690	130,495,166
Income taxes paid		(14,393,755)	(10,220,199)
Net cash flows from operating activities		**(4,359,142)**	**170,306,048**
Cash flows from investing activities			
Purchases of investment securities		(543,627,407)	(313,437,177)
Purchases of treasury bills		(7,115,056)	42,201,851
Investment in associates		19,810	27,240
Purchases of property and equipment		(4,069,207)	(2,711,513)
Proceeds from sale of property and equipment		860,803	179,313
Proceeds from sale investment securities		439,712,982	232,016,495
Proceeds from sale of treasury bills		20,628,515	41,093,068
Net cash flows used in investing activities		**(93,589,560)**	**(630,724)**
Cash flows from financing activities			
Proceeds from short term borrowings	19	115,215,676	(130,815,035)
Net cash from financing activities		**115,215,676**	**(130,815,035)**
Net change in cash and cash equivalents		**17,266,974**	**38,860,289**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		1,102,329	(6,367,817)
Cash and cash equivalents at the beginning of the year	7	**200,159,020**	**167,666,548**
Cash and cash equivalents at the end of the year	7	**218,528,323**	**200,159,020**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 62.

1. General

Banka Kombetare Tregtare Sh.a. is a commercial bank offering a wide range of universal services. The consolidated financial statements comprise the bank in Albania, its branch in Kosovo and its associate Albania Leasing (together referred to as the "Bank" "BKT" or the "Group).

The Bank provides banking services to state and privately owned enterprises and to individuals. The main sources of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, internet banking, mobile banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925.

BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 24 March 2016, the Bank increased its paid-up capital by Lek 5,339,908 thousand (equivalent of USD 43,088,100.25), using part of the statutory net profit for the year ended December 31, 2015. The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 24 March 2016 (123.93 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 3,488,915. The shareholding structure as at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016			***31 December 2015***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	20,242,915	250,000,000.25	100	16,754,000	206,911,900	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 64 branches and 2 custom agencies. Twenty-six branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat, Koplik, Gramsh and Skrapar, followed by custom agencies in Durrës Seaport and Rinas Airport.

The network in Kosovo includes 26 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,311 (31 December 2015: 1,285) employees as at 31 December 2016, out of which 362 (31 December 2015: 350) employees belong to Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for trading and available-for-sale financial assets, which are measured at fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek (“Lek”) is the Bank’s functional currency.

The Bank has chosen to present its financial statements in USD, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

(d) Use of estimates and judgements

The preparation of consolidated financial statements 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 recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(ii) Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows (except for foreign currency transaction gains or losses) relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

(b) Foreign currency

(i) 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 exchange rate at the end of the period. 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 recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, 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 profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iii) Translation of financial statements from functional currency to presentation currency

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 128.17 Lek (2015: 125.79).
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

(c) Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies (continued)

(f) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. 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.

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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset, with the exception of spot foreign exchange transactions which are recognized on settlement date (see accounting policy 3(b) (iv)). All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Classification

Financial assets are classified into the following specified categories: financial assets ‘held for trading, ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

See also accounting policies 3(h), (i), (j) and (k).

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible.

(iv) Offsetting

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

(v) Amortised cost measurement

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

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. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(h) 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 less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

(j) Loans

Loans 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.

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 recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3(g),(vi).

3. Significant accounting policies (continued)

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity, which do not meet the definition of loans receivables, that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(iii) Held-for-trading

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

These financial assets are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. Significant accounting policies (continued)

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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 recognised 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 derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

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

- Buildings and leasehold improvements 20 years
- Motor vehicles and other equipment 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(m) Intangible assets

Intangible assets comprise software acquired by the Bank. Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised 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 capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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

Amortisation is recognised 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. The estimated useful life of software is four years.

3. Significant accounting policies (continued)

(n) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

(o) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(p) Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

(q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of 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 ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(r) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

3. Significant accounting policies (continued)

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 22, “Liability for retiring employees”) during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

The amount due to employees based on the above plan would be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It would be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to a minimum of 75% of their state monthly pension until the accumulated fund for the employee is consumed.

Based on the Board of Directors resolution effective on 30 September 2010, the Bank stopped the investment in this fund (SSP), by transforming it into the Staff Retention Credit Program (SRCP). The demographic changes in labour force during the last ten years and the employees’ average age at 31, where 80% of employees are below the age of 40, has resulted in SSP not being attractive for most employees of the Bank, as it can only be enjoyed at retirement. In contrast, SRCP will be more readily beneficial for all the Bank’s staff, as it will provide consumer and home loans with preferential terms. The entire due amount calculated for eligible employees in Staff Support Program has been frozen on the same date. The frozen amount due to change of SSP into SRCP on 30 September 2010 and the corresponding annual interest that will be gained by the investment in AAA sovereign bonds in the future until retirement age, is recorded as a liability by the Bank.

(iii) Short-term benefits

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

(t) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank’s other Components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see Note 6). The Bank’s format for segment reporting is based on geographical segments.

3. Significant accounting policies (continued)

(u) New and revised standards that are effective for annual periods beginning on or after 1 January 2016

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position.

The standards and amendments that are effective for the first time in 2016 (for entities with a 31 December 2016 year end) and could be applicable to the Group are:

- 'Annual Improvements to IFRSs' 2012-2014 cycle
- 'Disclosure Initiative' (Amendments to IAS 1)
- 'Clarification of Acceptable Methods of Depreciation and Amortisation' (Amendments to IAS 16 and IAS 38)
- 'Agriculture: Bearer Plants' (Amendments to IAS 16 and IAS 41)
- 'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11)
- 'Equity Method in Separate Financial Statements' (Amendments to IAS 27)
- 'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 27).

These amendments do not have a significant impact on these financial statements and therefore disclosures have not been made.

In addition, IFRS 14 'Regulatory Deferral Accounts' is also effective from 1 January 2016. However it is only applicable to first time adopters of IFRS and therefore is not applicable to the Group.

(v) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

IFRS 9 "Financial Instruments"

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed
- an expected credit loss-based impairment will need to be recognised on the Group's trade receivables and investments in debt-type assets currently classified as AFS and HTM, unless classified as at fair value through profit or loss in accordance with the new criteria
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value.

3. Significant accounting policies (continued)

(v) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group (continued)

IFRS 9 "Financial Instruments" (continued)

Changes in fair value will be presented in profit or loss unless the Group makes an irrevocable designation to present them in other comprehensive income. .
IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.
Management has started to assess the impact of the new Standard.
IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 16 'Leases'
IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.
IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance leases and operating leases (Note 34, Section, 'Lease commitments') as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9 so the Group only have to undergo one set of system changes
- assessing the additional disclosures that will be required.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

Impairment of available-for-sale equity investments.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

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 3(g)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

4. Use of estimates and judgements (continued)

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(g)(vi).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2016	**Note**	**Carrying Amount**			**Fair Value**	
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	182,831,892	-	182,831,892	-	182,831,892
Treasury bills available-for-sale	9	151,067,452	-	151,067,452	-	151,067,452
Trading and available-for-sale securities	10	895,017,446	285,971,696	609,045,750	-	895,017,446
Held-to-maturity securities	11	129,537,206	105,036,522	28,356,060	-	133,392,582
Loans to banks	12	355,013,362	-	355,013,362	-	355,013,362
Loans to customers	13	1,007,063,126	-	-	1,007,063,126	1,007,063,126
Total financial assets		**2,720,530,484**	**391,008,218**	**1,326,314,516**	**1,007,063,126**	**2,724,385,860**
Customer deposits	18	2,348,186,010	-	-	2,348,186,010	2,348,186,010
Due to banks and financial institutions	19	276,910,754	-	276,910,754	-	276,910,754
Subordinated debt	23	26,441,225	-	26,441,225	-	26,441,225
Total financial liabilities		**2,651,537,989**	**-**	**303,351,979**	**2,348,186,010**	**2,651,537,989**
31 December 2015	**Note**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	156,716,297	-	156,716,297	-	156,716,297
Treasury bills available-for-sale	9	169,428,720	-	169,428,720	-	169,428,720
Trading and available-for-sale securities	10	787,382,041	257,376,095	530,005,946	-	787,382,041
Held-to-maturity securities	11	156,558,947	109,844,670	47,447,656	-	157,292,326
Loans to banks	12	249,292,090	-	249,292,090	-	249,292,090
Loans to customers	13	917,006,930	-	-	917,006,930	917,006,930
Total financial assets		**2,436,385,025**	**367,220,765**	**2,069,897,639**	**917,006,930**	**2,437,118,404**
Customer deposits	18	2,222,648,807	-	-	2,222,648,807	2,222,648,807
Due to banks and financial institutions	19	168,365,729	-	168,365,729	-	168,365,729
Subordinated debt	23	27,291,374	-	27,291,374	-	27,291,374
Total financial liabilities		**2,418,305,910**	**-**	**2,418,305,910**	**2,222,648,807**	**2,418,305,910**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 17 and 22. The Fair value of loan to customers and customer deposits approximates to their carrying value either due to interest rates approximating the market rates or due to short term maturities.

5. 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.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risks.

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 the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

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, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank 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 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 Loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Department processes are undertaken by Internal Audit.

5. Financial risk management (continued)

(b) Credit Risk (continued)

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Cash and balances with Central Bank	238,956,317	230,545,546
Treasury bills available-for-sale	151,067,452	169,428,720
Due from other banks	537,845,254	406,008,387
Loans to customers, net	1,007,063,126	917,006,930
Trading and available-for-sale securities	895,017,446	787,382,041
Held-to-maturity securities	129,537,206	156,558,947
Other Assets	9,669,023	7,317,094
Financial guarantees	60,842,387	69,121,558
Standby letters of credit	3,021,090	7,639,499
Commitments to extend credit	111,676,030	97,321,211
Maximum exposures to credit risk	**3,144,695,331**	**2,848,329,933**

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system. The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

5. Financial risk management (continued)

(b) Credit Risk (continued)

Past due but not impaired loans

Past due but not impaired loans are those loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It relates to the specific loss component for individually significant exposures. Refer to note 4.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / 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.

	Loans to customers			
31 December 2016	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	265,536,865	642,836,073	795,476	909,168,414
Past due and individually tested but not impaired	30,738,353	33,092,537	46,024	63,876,914
Individually impaired	13,118,482	67,170,348	911,048	81,199,878
Total Loans, gross (Note 13)	**309,393,700**	**743,098,958**	**1,752,548**	**1,054,245,206**
Allowance for individual impairment	(7,771,331)	(27,953,189)	(862,754)	(36,587,274)
Allowance for collective impairment	(3,179,542)	(7,406,008)	(9,256)	(10,594,806)
Total Loans, net of impairment	**298,442,827**	**707,739,761**	**880,538**	**1,007,063,126**

	Loans to customers			
31 December 2015	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	196,829,891	516,276,989	659,185	713,766,065
Past due and individually tested but not impaired	79,680,206	107,299,191	64,768	187,044,165
Individually impaired	12,584,768	29,018,309	1,395,038	42,998,115
Total Loans, gross (Note 13)	**289,094,865**	**652,594,489**	**2,118,991**	**943,808,345**
Allowance for individual impairment	(7,748,753)	(8,617,759)	(1,386,063)	(17,752,575)
Allowance for collective impairment	(2,786,488)	(6,255,112)	(7,240)	(9,048,840)
Total Loans, net of impairment	**278,559,624**	**637,721,618**	**725,688**	**917,006,930**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	**31 December 2016**	**31 December 2015**
A – Good	4,760,599	3,878,667
B – Acceptable	658,908,552	576,864,679
C – Close Monitoring	37,427,684	47,312,574
D – Unacceptable	36,866,085	20,948,225
(Note 13)	**737,962,920**	**649,004,145**
Accrued interest	7,246,826	5,525,311
Less: unamortized deferred fee income	(2,110,788)	(1,934,967)
Total	**743,098,958**	**652,594,489**

Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

	Loans to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
31 December 2016	4,418,987	62,789,699	16,411	67,225,097
31 December 2015	4,204,500	55,846,032	74,675	60,125,207

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans to customers			
31 December 2016	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	25,478,935	16,576,800	283,781	42,339,516
Past due 32-60 days	7,799,249	4,041,606	156,459	11,997,314
Past due 61-90 days	8,496,022	6,478,878	115,234	15,090,134
Past due 91-180 days	2,305,143	1,684,031	15,997	4,005,171
Past due 181 days- 365 days	4,462,492	26,290,859	36,120	30,789,471
Past due 1-2 years	2,736,913	16,456,868	12,716	19,206,497
Past due over 2 years	6,379,937	18,491,213	369,249	25,240,399
Total	**57,658,691**	**90,020,255**	**989,556**	**148,668,502**

	Loans to customers			
31 December 2015	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	21,633,977	20,931,075	157,696	42,722,748
Past due 32-60 days	9,530,471	6,986,068	200,740	16,717,279
Past due 61-90 days	8,914,408	30,328,163	123,312	39,365,883
Past due 91-180 days	3,455,956	4,399,567	50,054	7,905,577
Past due 181 days- 365 days	4,680,228	12,475,042	5,933	17,161,203
Past due 1-2 years	3,478,746	8,574,723	8,092	12,061,561
Past due over 2 years	5,402,525	13,161,440	443,564	19,007,529
Total	**57,096,311**	**96,856,078**	**989,391**	**154,941,780**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is an analysis of collateral and credit enhancement obtained during the years:

31 December 2016	Loans to customers Retail	Corporate	Total Loans
Residential, commercial or industrial Property	714,788,877	1,011,319,949	1,726,108,826
Financial assets	20,541,756	192,506,429	213,048,185
Other	113,447,284	299,991,369	413,438,653
Total	**848,777,917**	**1,503,817,747**	**2,352,595,664**

31 December 2015	Loans to customers Retail	Corporate	Total Loans
Residential, commercial or industrial Property	708,535,700	1,021,188,862	1,729,724,562
Financial assets	18,867,487	182,388,858	201,256,345
Other	76,002,778	230,804,807	306,807,585
Total	**803,405,965**	**1,434,382,527**	**2,237,788,492**

Credit quality of other financial assets, based on the internal rating system of the Bank is detailed as follows:

31-Dec-16	Cash and balances with Central Bank	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Other Assets	Total
Good	238,956,317	151,067,452	537,845,254	895,017,446	129,537,206	9,669,023	1,962,092,698
Acceptable	-	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-	-
Total	**238,956,317**	**151,067,452**	**537,845,254**	**895,017,446**	**129,537,206**	**9,669,023**	**1,962,092,698**

31-Dec-15	Cash and balances with Central Bank	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Other Assets	Total
Good	230,545,546	169,428,720	406,008,387	787,382,041	156,558,947	7,317,094	1,757,240,735
Acceptable	-	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-	-
Total	**230,545,546**	**169,428,720**	**406,008,387**	**787,382,041**	**156,558,947**	**7,317,094**	**1,757,240,735**

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Treasury Bills, Investments Available for Sale, and Investments Held to Maturity are rated as follows:

Moody's Ratings or equivalent	**Note**	**31 December 2016**	**31 December 2015**
Government bonds and treasury bills	**9,10,11**		
Rated A2		2,065,992	-
Rated Aa2 to Aaa		-	11,265,893
Rated Baa3 to Baa1		4,900,303	11,645,506
Rated Ba3 to Ba1		20,573,877	25,639,178
Rated B1		779,710,193	744,944,926
Not rated		38,067,288	40,100,443
Corporate bonds and asset backed securities	**10,11**		
Rated A3		1,452,549	1,407,048
Rated Baa3		34,284,146	18,211,894
Rated Ba3 to Ba1		11,778,891	15,003,514
Not rated		8,593,922	5,562,447
Bank bonds	**10,11**		
Rated A2		16,053,164	-
Rated Baa3 to Baa2		41,460,007	105,032,372
Rated Ba2 to Ba1		146,124,589	60,089,425
Rated Ba3		31,634,672	18,582,423
Rated B1		12,012,800	24,820,974
Not rated		1,728,998	6,687,455
Investments in equity			
Not rated		25,180,713	24,376,210
Total		**1,175,622,104**	**1,113,369,708**

The rating for Loans to banks is detailed in Note 12.

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2016 and 2015 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**
Carrying amount	9-11,12,13	1,007,063,126	917,006,930	355,013,362	249,292,090	1,175,622,104	1,113,369,708
Concentration by sector							
Corporate		703,157,777	632,913,048	-	-	81,290,221	64,561,113
Government		4,581,984	4,808,571	-	-	845,317,653	833,595,946
Banks		-	-	355,013,362	249,292,090	249,014,230	215,212,649
Retail		299,323,365	279,285,311	-	-	-	-
Total		**1,007,063,126**	**917,006,930**	**355,013,362**	**249,292,090**	**1,175,622,104**	**1,113,369,708**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment securities**	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**
Albania		563,532,812	577,220,628	-	-	777,021,466	744,944,926
Kosovo		196,305,023	152,094,044	-	-	38,067,288	40,100,443
Europe		214,381,047	153,747,180	301,629,246	234,555,104	309,352,583	267,611,959
Asia		-	-	6,884,849	7,083,030	1,728,998	19,297,482
Middle East and Africa		32,844,244	33,945,078	39,494,253	7,653,956	33,380,611	17,812,005
South America		-	-	7,005,014	-	16,071,158	23,602,893
Total	9-11,12,13	**1,007,063,126**	**917,006,930**	**355,013,362**	**249,292,090**	**1,175,622,104**	**1,113,369,708**

5. Financial risk management (continued)

(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. The purpose of Liquidity Risk Management (LRM) 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. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under "business as usual" scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time buckets up to one year as at 31 December 2016. This resulted mainly because of the following three assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank's reserve requirements held with BoA are considered as non-liquid assets.

An analysis of the Bank's expected timing of cash flows by simple remaining maturity is shown in the following tables.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2016, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	238,956,317	-	-	-	-	238,956,317
Placement and balances with banks	173,610,139	4,574,414	4,119,578	527,761	-	182,831,892
Treasury bills available-for-sale	22,848,053	49,215,836	79,003,563	-	-	151,067,452
Trading and available-for-sale securities	10,342,012	58,930,500	149,702,027	535,125,435	140,917,472	895,017,446
Held-to-maturity securities	1,730,087	10,053,800	46,381,546	69,261,607	2,110,166	129,537,206
Loans to banks	17,170,875	33,032,439	253,593,968	51,216,080	-	355,013,362
Loans to customers	51,760,290	39,213,381	259,385,060	472,233,007	184,471,388	1,007,063,126
Other assets	9,669,023	-	-	-	-	9,669,023
Total assets	**526,086,796**	**195,020,370**	**792,185,742**	**1,128,363,890**	**327,499,026**	**2,969,155,824**
Liabilities						
Customer deposits	886,651,441	241,433,307	919,429,818	270,886,774	29,784,670	2,348,186,010
Due to banks and financial institutions	196,962,012	69,285,787	4,432,689	6,230,266	-	276,910,754
Due to third parties	4,672,432	-	-	-	-	4,672,432
Accruals and other liabilities	6,241,980	-	-	-	927,279	7,169,259
Subordinated debt	-	-	64,148	-	26,377,077	26,441,225
Total liabilities	**1,094,527,865**	**310,719,094**	**923,926,655**	**277,117,040**	**57,089,026**	**2,663,379,680**
Net Position	**(568,441,069)**	**(115,698,724)**	**(131,740,913)**	**851,246,850**	**270,410,000**	**305,776,144**
Cumulative Net Position	**(568,441,069)**	**(684,139,793)**	**(815,880,706)**	**35,366,144**	**305,776,144**	**-**

LRM reports are produced for each single currency Lek, Euro and USD and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2015, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	230,545,546	-	-	-	-	230,545,546
Placement and balances with banks	141,728,795	13,618,592	1,368,910	-	-	156,716,297
Treasury bills available-for-sale	43,835,340	64,221,257	61,372,123	-	-	169,428,720
Trading and available-for-sale securities	12,558,575	18,067,150	126,675,860	431,948,890	198,131,566	787,382,041
Held-to-maturity securities	9,038,113	3,050,479	45,657,579	98,812,776	-	156,558,947
Loans to banks	5,508,537	6,610,509	216,894,246	20,278,798	-	249,292,090
Loans to customers	44,025,371	30,190,365	252,992,004	401,117,232	188,681,958	917,006,930
Other assets	5,477,928	51,228	1,787,938	-	-	7,317,094
Total assets	**492,718,205**	**135,809,580**	**706,748,660**	**952,157,696**	**386,813,524**	**2,674,247,665**
Liabilities						
Customer deposits	760,189,248	267,354,532	907,490,284	262,443,664	25,171,079	2,222,648,807
Due to banks and financial institutions	148,564,997	2,232,557	4,772,182	11,317,224	1,478,769	168,365,729
Due to third parties	2,828,259	-	-	-	-	2,828,259
Accruals and other liabilities	6,154,636	-	-	-	962,041	7,116,677
Subordinated debt	-	-	7,806	-	27,283,568	27,291,374
Total liabilities	**917,737,140**	**269,587,089**	**912,270,272**	**273,760,888**	**54,895,457**	**2,428,250,846**
Net Position	**(425,018,935)**	**(133,777,509)**	**(205,521,612)**	**678,396,808**	**331,918,067**	**245,996,819**
Cumulative Net Position	**(425,018,935)**	**(558,796,444)**	**(764,318,056)**	**(85,921,248)**	**245,996,819**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the latest changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio is decreased to 20% and that of individual ratios to 15%.

As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA including mandatory reserve, T-bills and securities according to their remaining maturity and ability to turn into liquidity, where the non-resident counterparties' balances are discounted with the respective haircuts according to international credit rating. Short-term liabilities are considered all liabilities with remaining maturity up to one year.

Details of the reported Bank ratio at the reporting dates were as follows:

	31-Dec-2016	**31-Dec-2015**
Total Liquid Assets/Total Short Term Liabilities Ratio	33.42%	34.93%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	49.71%	50.33%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	20.61%	19.96%

(d) Market risk

1) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the USD equivalent amounts of monetary assets and liabilities by currency as at 31 December 2016 and 31 December 2015:

31 December 2016	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	99,562,473	12,283,932	120,956,300	6,153,612	238,956,317
Placements and balances with banks	14,473	47,973,260	108,378,829	26,465,330	182,831,892
Treasury bills available-for-sale	139,607,179	-	11,460,273	-	151,067,452
Trading and available-for-sale securities	557,048,847	146,940,583	137,322,878	53,705,138	895,017,446
Held-to-maturity securities	1,097,795	51,802,864	76,636,547	-	129,537,206
Loans to banks	-	85,367,934	269,645,428	-	355,013,362
Loans to customers	438,663,256	116,720,621	451,654,798	24,451	1,007,063,126
Other assets	5,450,663	76,689	2,716,721	1,424,950	9,669,023
Total assets	**1,241,444,686**	**461,165,883**	**1,178,771,774**	**87,773,481**	**2,969,155,824**
Foreign exchange contracts	**2,562,261**	**52,773,826**	**35,811,483**	**25,342,094**	**116,489,664**
Liabilities					
Customer deposits	1,075,345,589	107,687,895	1,128,247,535	36,904,991	2,348,186,010
Due to banks and financial institutions	197,725,603	44,673,020	13,682,957	20,829,174	276,910,754
Due to third parties	4,672,432	-	-	-	4,672,432
Accruals and other liabilities	1,183,913	3,902,729	2,070,993	11,624	7,169,259
Subordinated debt	-	-	26,441,225	-	26,441,225
Total liabilities	**1,278,927,537**	**156,263,644**	**1,170,442,710**	**57,745,789**	**2,663,379,680**
Foreign exchange contracts	**-**	**49,211,526**	**18,901,552**	**48,376,586**	**116,489,664**
Net position (GAP)	**(34,920,590)**	**308,464,539**	**25,238,995**	**6,993,200**	**305,776,144**
Total assets / Total liabilities	97.27%	250.12%	102.12%	106.59%	111.00%
GAP / FX denominated assets		0.60	0.018	0.0618	0.10
Sensitivity analysis					
Lek depreciates by 10%		28,042,231	2,294,454	635,745	30,972,430
Lek depreciates by 5%		14,688,788	1,201,857	333,010	16,223,655
Lek appreciates by 5%		(16,234,976)	(1,328,368)	(368,063)	(17,931,407)
Lek appreciates by 10%		(34,273,838)	(2,804,333)	(777,022)	(37,855,193)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2015	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	84,089,670	12,278,026	130,618,955	3,558,895	230,545,546
Placements and balances with banks	789,630	57,374,235	74,186,555	24,365,877	156,716,297
Treasury bills available-for-sale	159,322,598	-	10,106,122	-	169,428,720
Trading and available-for-sale securities	496,219,181	117,357,336	144,876,941	28,928,583	787,382,041
Held-to-maturity securities	-	61,645,916	94,913,031	-	156,558,947
Loans to banks	-	32,110,848	217,181,242	-	249,292,090
Loans to customers	434,662,210	73,141,019	408,918,517	285,184	917,006,930
Other assets	3,452,182	21,722	1,932,176	1,911,014	7,317,094
Total assets	**1,178,535,471**	**353,929,102**	**1,082,733,539**	**59,049,553**	**2,674,247,665**
Foreign exchange contracts	**2,216,694**	**36,958,293**	**26,706,694**	**26,281,620**	**92,163,301**
Liabilities					
Customer deposits	1,084,630,780	111,081,962	999,161,881	27,774,184	2,222,648,807
Due to banks and financial institutions	130,457,292	2,532,650	19,967,367	15,408,420	168,365,729
Due to third parties	2,828,259	-	-	-	2,828,259
Accruals and other liabilities	1,575,880	4,395,159	1,124,422	21,216	7,116,677
Subordinated debt	-	-	27,291,374	-	27,291,374
Total liabilities	**1,219,492,211**	**118,009,771**	**1,047,545,044**	**43,203,820**	**2,428,250,846**
Foreign exchange contracts	**1,006,491**	**27,481,911**	**29,877,957**	**33,796,942**	**92,163,301**
Net position (GAP)	**(39,746,537)**	**245,395,713**	**32,017,232**	**8,330,411**	**245,996,819**
Total assets / Total liabilities	96.74%	268.67%	102.97%	110.82%	109.76%
GAP / FX denominated assets		0.63	0.029	0.0976	0.09
Sensitivity analysis					
Lek depreciates by 10%		22,308,701	2,910,657	757,310	25,976,668
Lek depreciates by 5%		11,685,510	1,524,630	396,686	13,606,826
Lek appreciates by 5%		(12,915,564)	(1,685,117)	(438,443)	(15,039,124)
Lek appreciates by 10%		(27,266,190)	(3,557,470)	(925,601)	(31,749,261)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2016 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.88%	N/A	N/A
Placement and balances with banks	N/A	0.73%	0.58%
Treasury bills available-for-sale	1.84%	N/A	0.35%
Investment securities	4.20%	4.56%	3.48%
Loans to banks	N/A	3.58%	0.90%
Loans to customers	5.80%	7.55%	6.42%
Liabilities			
Customer deposits	1.16%	0.70%	0.47%
Due to banks and financial institutions	1.27%	1.92%	2.45%
Subordinated debt	-	-	5.15%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	1.23%	N/A	N/A
Placement and balances with banks	2.05%	0.28%	0.91%
Treasury bills available-for-sale	3.45%	N/A	1.68%
Investment securities	6.44%	4.23%	3.84%
Loans to banks	N/A	2.35%	0.75%
Loans to customers	6.61%	7.33%	7.11%
Liabilities			
Customer deposits	1.83%	0.70%	0.73%
Due to banks and financial institutions	1.80%	0.74%	2.54%
Subordinated debt	-	-	5.15%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2016 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	238,956,317	-	-	-	-	238,956,317
Placement and balances with banks	173,610,139	4,574,414	4,119,578	527,761	-	182,831,892
Treasury bills available-for-sale	22,848,053	49,215,836	79,003,563	-	-	151,067,452
Trading and available-for-sale securities	10,263,663	64,288,778	162,017,325	519,596,594	138,851,086	895,017,446
Held-to-maturity securities	1,730,087	10,131,217	46,271,666	69,294,070	2,110,166	129,537,206
Loans to banks	89,420,778	106,657,390	158,935,194	-	-	355,013,362
Loans to customers	639,992,541	24,580,927	234,797,485	107,692,173	-	1,007,063,126
Total	**1,176,821,578**	**259,448,562**	**685,144,811**	**697,110,598**	**140,961,252**	**2,959,486,801**
Liabilities						
Customer deposits	886,651,441	241,433,307	919,429,818	270,886,774	29,784,670	2,348,186,010
Due to banks and financial institutions	196,962,012	71,395,953	8,552,789	-	-	276,910,754
Subordinated debt	-	-	26,441,225	-	-	26,441,225
Total	**1,083,613,453**	**312,829,260**	**954,423,832**	**270,886,774**	**29,784,670**	**2,651,537,989**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with Central Bank	230,545,546	-	-	-	-	230,545,546
Placement and balances with banks	141,728,795	13,618,592	1,368,910	-	-	156,716,297
Treasury bills available-for-sale	43,835,340	64,221,257	61,372,123	-	-	169,428,720
Trading and available-for-sale securities	14,315,449	16,869,321	129,192,309	431,065,125	195,939,837	787,382,041
Held-to-maturity securities	9,038,113	3,237,009	46,159,399	98,124,426	-	156,558,947
Loans to banks	49,886,917	138,944,801	60,460,372	-	-	249,292,090
Loans to customers	16,616,207	19,051,065	230,555,732	639,905,398	10,878,528	917,006,930
Total	**505,966,367**	**255,942,045**	**529,108,845**	**1,169,094,949**	**206,818,365**	**2,666,930,571**
Liabilities						
Customer deposits	760,189,248	267,354,532	907,490,284	262,443,664	25,171,079	2,222,648,807
Due to banks and financial institutions	148,564,997	8,780,613	11,020,119	-	-	168,365,729
Subordinated debt	-	-	27,291,374	-	-	27,291,374
Total	**908,754,245**	**276,135,145**	**945,801,777**	**262,443,664**	**25,171,079**	**2,418,305,910**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate to the net profit, when the change is applied to the GAP position as per re-pricing terms presented in note above, assuming all the other variables are held constant:

	31 December 2016		*31 December 2015*	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	5,311,725	16,059,733	(8,972,964)	12,793,008
Interest rate increases by 1.5%	3,983,793	12,044,799	(6,729,723)	9,594,756
Interest rate increases by 1%	2,655,862	8,029,866	(4,486,482)	6,396,504
Interest rate decreases by 1%	(2,655,862)	(8,029,866)	4,486,482	(6,396,504)
Interest rate decreases by 1.5%	(3,983,793)	(12,044,799)	6,729,723	(9,594,756)
Interest rate decreases by 2%	(5,311,725)	(16,059,733)	8,972,964	(12,793,008)

(e) 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 behaviour. 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.

5. Financial risk management (continued)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return 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 sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

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 new regulations "On the capital adequacy ratio" and "On the regulatory capital" entered into force in 2015 are issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Bank of Albania is 12%. The minimum Tier 1 Capital Ratio is 6.0% and the minimum Common Equity Tier 1 Ratio is 4.5%

In December 2016, BKT has reported the following ratios:

- Regulatory Capital Ratio 14.08% (December 2015: 13.99%);
- Tier 1 Capital Ratio 12.92% (December 2015: 12.57%);
- Common Equity Tier 1 Ratio 12.92% (December 2015: 12.57%).

Risk-Weighted Assets (RWAs)

For calculation of credit risk, exposures, on- and off-balance sheet are classified in 15 exposure classes. In general terms, client/ issuer type, loan destination and collateral are the main determinants of the exposure class. Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Market risk capital requirements are calculated in case the Bank has a Trading portfolio that fulfils the requirements defined by the regulation and/ or a total net open currency position that is larger than the defined minimum threshold. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

Compliance

The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the period.

6. Segmental reporting

	31 December 2016			31 December 2015		
Geographical Segments	**Albania**	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Assets						
Cash and balances with Central Bank	198,371,935	40,584,382	238,956,317	174,510,043	56,035,503	230,545,546
Placement and balances with banks	176,703,176	6,128,716	182,831,892	156,526,081	190,216	156,716,297
Treasury bills available-for-sale	139,612,983	11,454,469	151,067,452	159,355,959	10,072,761	169,428,720
Trading and available-for-sale securities	869,266,073	25,751,373	895,017,446	757,401,849	29,980,192	787,382,041
Held-to-maturity securities	129,537,206	-	129,537,206	156,558,947	-	156,558,947
Loans to banks	306,452,292	48,561,070	355,013,362	249,292,090	-	249,292,090
Loans to customers	810,758,103	196,305,023	1,007,063,126	764,912,886	152,094,044	917,006,930
Investment in associates	1,265,678	-	1,265,678	1,309,175	-	1,309,175
Property and equipment	16,819,560	2,142,057	18,961,617	17,420,489	3,025,301	20,445,790
Intangible assets	1,651,692	-	1,651,692	1,203,635	-	1,203,635
Other assets	22,432,061	14,843,819	37,275,880	-	64,483,981	64,483,981
Total assets	**2,672,870,759**	**345,770,909**	**3,018,641,668**	**2,438,491,154**	**315,881,998**	**2,754,373,152**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	2,045,551,159	302,634,851	2,348,186,010	1,948,915,872	273,732,935	2,222,648,807
Due to banks and financial institutions	267,763,125	9,147,629	276,910,754	157,884,279	10,481,450	168,365,729
Due to third parties	4,672,432	-	4,672,432	2,828,259	-	2,828,259
Deferred tax liabilities	1,338,585	-	1,338,585	722,574	-	722,574
Accruals and other liabilities	10,272,274	1,136,491	11,408,765	36,319,807	2,628,570	38,948,377
Subordinated debt	26,441,225	-	26,441,225	27,291,374	-	27,291,374
Total liabilities	**2,356,038,800**	**312,918,971**	**2,668,957,771**	**2,173,962,165**	**286,842,955**	**2,460,805,120**
Shareholder's equity						
Share capital			250,000,000			206,911,900
Legal reserve			-			-
Translation reserve			(1,823,607)			(2,229)
Fair value reserve			762,502			976,965
Retained earnings			100,745,002			85,681,396
Total shareholder's equity			**349,683,897**			**293,568,032**
Total liabilities and shareholder's equity			**3,018,641,668**			**2,754,373,152**

Within "Other assets" for Kosovo Branch, it is included the amount of USD 11,458,745, which represents intragroup transactions between Head Office/Branches in Albania and Kosovo Branch as at 31 December 2016, and has been eliminated on combination (31 December 2015: USD 61,888,412).

6. Segmental reporting (continued)

Geographical Segments	2016			2015		
	Albania	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Interest						
Interest income	108,786,631	14,894,714	123,681,345	111,230,273	16,743,857	127,974,130
Interest expense	(23,605,713)	(3,085,300)	(26,691,013)	(32,850,083)	(3,136,427)	(35,986,510)
Net interest margin	**85,180,918**	**11,809,414**	**96,990,332**	**78,380,190**	**13,607,430**	**91,987,620**
Non-interest income, net						
Fees and commissions, net	11,133,872	3,441,920	14,575,792	9,023,434	2,864,692	11,888,126
Foreign exchange revaluation gain, net	4,087	669	4,756	1,982,681	2,389	1,985,070
Foreign exchange trading activities income, net	2,653,116	(82,135)	2,570,981	321,543	39,976	361,519
Securities trading gain, net	23,587,643	-	23,587,643	1,258,347	-	1,258,347
Other income, net	(1,832,583)	-	(1,832,583)	(2,775,173)	29,330	(2,745,843)
Total non-interest income, net	**35,546,135**	**3,360,454**	**38,906,589**	**9,810,832**	**2,936,387**	**12,747,219**
Operating expenses						
Personnel expenses	(12,796,712)	(3,995,493)	(16,792,205)	(12,395,986)	(4,020,921)	(16,416,907)
Administrative expenses	(18,858,594)	(4,541,474)	(23,400,068)	(16,265,654)	(4,212,003)	(20,477,657)
Depreciation and amortization	(2,995,126)	(1,050,253)	(4,045,379)	(2,936,537)	(1,222,945)	(4,159,482)
Total operating expenses	**(34,650,432)**	**(9,587,220)**	**(44,237,652)**	**(31,598,177)**	**(9,455,869)**	**(41,054,046)**
Impairment of loans	(21,214,056)	(1,033,316)	(22,247,372)	(4,188,928)	(672,130)	(4,861,058)
Profit before taxes	**64,862,565**	**4,549,332**	**69,411,897**	**52,403,917**	**6,415,818**	**58,819,735**
Income tax	(10,590,668)	(378,943)	(10,969,611)	(8,314,071)	(641,582)	(8,955,653)
Net profit for the year	**54,271,897**	**4,170,389**	**58,442,286**	**44,089,846**	**5,774,236**	**49,864,082**

Interest income of USD 816,161(2015: USD 1,694,983), which represents interest earned from Kosovo Branch on intra-group balances was eliminated on combination.

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2016 and 2015 are detailed as follows:

	31 December 2016	31 December 2015
Cash on hand	37,948,423	38,331,976
Deposits with the Central Bank of Kosovo	26,398,175	42,592,292
Bank of Albania		
Current account	6,934,337	22,628
Statutory reserve	167,669,443	149,575,010
Accrued interest	5,939	23,640
	174,609,719	149,621,278
	238,956,317	**230,545,546**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 60% of this level, provided that the monthly average is maintained.

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo.

Cash and cash equivalents as at 31 December 2016 and 2015 are presented as follows:

	31 December 2016	31 December 2015
Cash and balances with Central Bank	238,956,317	230,545,546
Statutory reserve in Albania	(167,669,443)	(149,575,010)
Statutory reserve in Kosovo	(18,876,083)	(19,151,800)
Current accounts with banks	94,225,066	49,949,401
Placements with maturities of 3 months or less	71,892,466	88,390,883
	218,528,323	**200,159,020**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2016 and 31 December 2015 consisted as follows:

	31 December 2016	31 December 2015
Placements	81,666,723	100,738,667
Cash collateral held by financial institutions	6,782,854	5,887,207
Current accounts	94,225,066	49,949,401
Accrued interest	157,249	141,022
	182,831,892	**156,716,297**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by financial institutions in relation to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

9. Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2016 and 31 December 2015 are presented as follows:

	31 December 2016			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	2,837,185	880	30	2,838,095
6 months	1,089,317	539	159	1,090,015
12 months	145,901,986	1,544,729	(307,373)	147,139,342
	149,828,488	**1,546,148**	**(307,184)**	**151,067,452**

	31 December 2015			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	-	-	-	-
6 months	5,792,769	29,128	2,619	5,824,516
12 months	159,502,362	3,778,664	323,178	163,604,204
	165,295,131	**3,807,792**	**325,797**	**169,428,720**

10. Trading and available-for-sale securities

The Bank's trading and available-for-sale portfolio as at 31 December 2016 includes financial assets held for trading amounting USD 6,458,814 (31 December 2015: USD 2,977,921) and financial assets available for sale amounting USD 888,558,632 (31 December 2015: USD 784,404,120).

Trading and available-for-sale securities as at 31 December 2016 comprise as follows:

Type	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Marked to market gain/ (loss)**	**Fair Value**
Lek denominated	532,831,801	13,020,704	7,831,093	3,365,249	557,048,847
USD denominated	145,322,128	1,178,108	1,473,984	(1,033,637)	146,940,583
EUR denominated	131,292,510	3,082,220	1,695,242	1,252,906	137,322,878
TRY denominated	33,751,097	-	1,883,339	(137,535)	35,496,901
CAD denominated	9,923,349	-	-	(2,484,597)	7,438,752
GBP denominated	10,072,924	359,453	218,809	89,094	10,740,280
SEK denominated	67,862	-	-	(38,657)	29,205
	863,261,671	**17,640,485**	**13,102,467**	**1,012,823**	**895,017,446**

10. Trading and available-for-sale securities (continued)

Trading and available-for-sale securities as at 31 December 2015 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	482,084,045	202,677	7,818,435	6,114,024	496,219,181
USD denominated	115,319,696	1,698,879	1,571,650	(1,232,889)	117,357,336
EUR denominated	142,119,117	2,845,016	2,263,985	(2,351,177)	144,876,941
TRY denominated	13,535,006	-	3,894,863	(143,104)	17,286,765
CAD denominated	9,626,229	-	-	(1,782,725)	7,843,504
GBP denominated	3,551,129	32,554	123,081	58,845	3,765,609
SEK denominated	73,260	-	-	(40,555)	32,705
	766,308,482	**4,779,126**	**15,672,014**	**622,419**	**787,382,041**

11. Held-to-maturity securities

Held-to-maturity securities as at 31 December 2016 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	1,092,299	-	5,496	1,097,795
USD denominated	50,659,954	341,708	801,202	51,802,864
EUR denominated	75,887,971	(109,505)	858,081	76,636,547
	127,640,224	**232,203**	**1,664,779**	**129,537,206**

Held-to-maturity securities as at 31 December 2015 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	-	-	-	-
USD denominated	60,115,116	803,246	727,553	61,645,915
EUR denominated	93,819,985	(111,267)	1,204,314	94,913,032
	153,935,101	**691,979**	**1,931,867**	**156,558,947**

12. Loans to banks

The Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

Moody's or equivalent	31 December 2016	31 December 2015
Rated A3 to A1	8,279,781	-
Rated Baa3 to Baa1	57,320,055	208,885,735
Rated Ba3 to Ba1	246,133,146	21,820,425
Rated B1	23,227,264	-
Rated Caa1	10,028,062	-
Not rated	10,025,054	18,585,930
	355,013,362	**249,292,090**

13. Loans to customers

Loans to customers consisted of the following:

	31 December 2016	31 December 2015
Loans to customers, gross	1,049,901,499	940,917,270
Accrued interest	8,571,977	6,964,735
Less allowances for impairment on loans	(47,182,080)	(26,801,415)
Less unamortized deferred fee income	(4,228,270)	(4,073,660)
	1,007,063,126	**917,006,930**

Movements in the allowance for impairment on loans:

	2016	2015
At 1 January	26,801,415	27,904,718
Impairment charge for the year, net	22,247,372	4,861,058
Provision reversal of written off loans	(691,249)	(3,623,349)
Translation difference	(1,175,458)	(2,341,012)
At the end of the year	**47,182,080**	**26,801,415**

All the loans are denominated in Lek, Euro, USD, CHF and GBP and bear interest at the following rates:

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.06% to 22.00%
Loans in USD	1.75% to 10.00%
Loans in CHF	4.50% to 5.00%
Loans in GBP	3.00% to 3.00%

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

13. Loans to customers (continued)

The classification of business loans by industry is as follows:

	31 December 2016		31 December 2015	
	USD	%	USD	%
Wholesale Trade	115,718,569	16%	110,038,768	17%
Electricity, Gas and Water Supply	101,406,190	14%	91,203,573	14%
Real Estate, Renting and Business Activity	70,176,591	9%	72,935,720	11%
Construction	66,057,164	9%	52,111,074	8%
Financial Intermediation	56,521,536	8%	35,115,521	5%
Retail Trade	42,912,129	6%	36,093,907	6%
Mining and Quarrying	42,407,162	6%	8,707,851	1%
Other Community, Social and Personal Activities	30,739,608	4%	29,519,284	5%
Manufacturing of Other Non-metallic Products	28,262,328	4%	25,665,468	4%
Manufacturing of Basic Metals and Fabricated Metal Products	12,521,193	2%	13,667,737	2%
Hotels and Restaurants	12,196,633	2%	9,648,762	1%
Personal Needs	10,740,677	1%	9,186,429	1%
Manufacture of Food Products, Beverages	9,647,143	1%	10,540,973	2%
Transport, Storage and Communication	9,504,940	1%	9,495,242	1%
Agriculture, Hunting and Forestry	7,913,519	1%	4,865,162	1%
Education	5,367,707	1%	11,874,438	2%
Manufacture of Rubber and Plastic Products	4,379,876	1%	4,580,607	1%
Health and Social Work	3,557,193	1%	3,705,932	1%
Manufacture of Pulp, Paper and Paper Products	3,010,891	1%	3,325,148	1%
Manufacture of Wood and Wood Products	2,093,145	1%	2,161,081	1%
Other Sectors	102,828,726	11%	104,561,468	15%
	737,962,920	**100%**	**649,004,145**	**100%**

The classification of retail loans by type is as follows:

	31 December 2016		31 December 2015	
	USD	%	USD	%
Home purchase	190,860,823	61%	186,008,999	63%
Super Loan	42,147,003	14%	29,604,450	10%
Home improvement	22,322,891	7%	23,113,127	8%
Overdraft and credit cards	16,934,051	5%	16,533,863	5%
Shop purchase	13,881,066	4%	13,966,128	5%
Home reconstruction	5,963,081	2%	6,361,085	2%
Home advances	1,741,032	1%	2,106,186	1%
Car purchase	515,808	1%	403,349	1%
Technical equipment	454,162	1%	416,359	1%
Other types	17,118,662	4%	13,399,579	4%
	311,938,579	**100%**	**291,913,125**	**100%**

14. Investment in associates

Investment in associates of USD 1,265,678 (31 December 2015: 1,309,175) represents the equivalent amount of an investment of EUR 1,199,600 into the share capital of Albania Leasing Sh.a (the "Company") at a participation ratio of 29.99%. The Company was established in August 2, 2013 (inception date) as a Joint Stock Company. The Company obtained the license from the Bank of Albania on April 21, 2014 and started its leasing activity in June 2014.

15. Property and equipment

Property and equipment as at 31 December 2016 and 2015 are composed as follows:

	Land, buildings and leasehold improvements	Vehicles and other equipment	Computers and electronic equipment	Office equipment	Total
Gross value					
At 1 January 2015	**28,721,867**	**5,755,902**	**15,891,801**	**2,167,327**	**52,536,897**
Additions	172,129	79,408	1,426,729	63,010	1,741,276
Disposals / transfers	(14,504)	(33,721)	(9,619)	-	(57,844)
Translation difference	(2,477,648)	(513,158)	(1,425,012)	(192,784)	(4,608,602)
At 31 December 2015	**26,401,844**	**5,288,431**	**15,883,899**	**2,037,553**	**49,611,727**
Additions	406,121	381,933	1,229,401	127,225	2,144,680
Disposals / transfers	-	(509,052)	(550,328)	(34,902)	(1,094,282)
Translation difference	(537,745)	(119,392)	(363,124)	(45,502)	(1,065,763)
At 31 December 2016	**26,270,220**	**5,041,920**	**16,199,848**	**2,084,374**	**49,596,362**
Accumulated depreciation					
At 1 January 2015	**(10,134,766)**	**(4,426,008)**	**(12,235,252)**	**(1,557,473)**	**(28,353,499)**
Charge for the year	(1,187,815)	(436,735)	(1,538,356)	(193,145)	(3,356,051)
Disposals / write offs	5,922	33,226	9,580	-	48,728
Translation difference	877,897	393,992	1,084,836	138,160	2,494,885
At 31 December 2015	**(10,438,762)**	**(4,435,525)**	**(12,679,192)**	**(1,612,458)**	**(29,165,937)**
Charge for the year	(1,225,516)	(383,341)	(1,448,125)	(196,887)	(3,253,869)
Disposals / write offs	-	455,644	549,084	34,725	1,039,453
Translation difference	257,371	112,576	333,153	42,508	745,608
At 31 December 2016	**(11,406,907)**	**(4,250,646)**	**(13,245,080)**	**(1,732,112)**	**(30,634,745)**
Net book value					
At 1 January 2015	**18,587,101**	**1,329,894**	**3,656,549**	**609,854**	**24,183,398**
At 31 December 2015	**15,963,082**	**852,906**	**3,204,707**	**425,095**	**20,445,790**
At 31 December 2016	**14,863,313**	**791,274**	**2,954,768**	**352,262**	**18,961,617**

As at 31 December 2016 the gross value of the assets which were fully depreciated and still in use was USD 20,358,537 (2015: USD 15,351,127).

16. Intangible assets

Intangible assets as at 31 December 2016 and 2015 are composed as follows:

	Software
Gross value	
At 1 January 2015	**6,712,211**
Additions	626,656
Translation difference	(563,486)
At 31 December 2015	**6,775,381**
Additions	1,021,387
Translation difference	(125,813)
At 31 December 2016	**7,670,955**
Accumulated depreciation	
At 1 January 2015	**(5,481,621)**
Charge for the year	(549,894)
Translation difference	459,769
At 31 December 2015	**(5,571,746)**
Charge for the year	(568,555)
Translation difference	121,037
At 31 December 2016	**(6,019,264)**
Net book value	
At 1 January 2015	**1,230,590**
At 31 December 2015	**1,203,635**
At 31 December 2016	**1,651,692**

Software represents mainly the upgraded Bank's operating and accounting system, and the license and software for providing internet and mobile banking services.

17. Other assets

Other assets as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Assets acquired through legal process, net	24,819,086	31,274,277
Payments in transit	3,138,716	2,119,682
Administration costs receivable from borrowers	2,548,486	2,476,989
Foreign exchange contracts revaluation gain	1,183,503	-
Prepaid expenses	873,122	757,318
Inventory	561,042	473,989
Advances to suppliers	170,104	201,404
Other debtors, net	3,981,821	2,720,423
	37,275,880	**40,024,082**

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets.

17. Other assets (continued)

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. These assets are measured at the lower of their carrying amount and fair value less cost to sell. The Bank has estimated an impaired amount of USD 1,184,521 to the total gross amount of USD 26,003,607.
A number of these properties are leased to third parties. Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from these properties of USD 167,914 (31 December 2015: USD 177,402) is recognised in other income.

Payments in transit represent customers' payments drawn on other banks that are in the process of being collected.

Other debtors, net are composed as follows:

	31 December 2016	31 December 2015
Other debtors	5,377,672	3,937,876
Provision for other debtors	(1,395,851)	(1,217,453)
Other debtors, net	**3,981,821**	**2,720,423**

Provision for other debtors is the specific provision of TRL 4,920,415 (equivalent of USD 1,395,851) for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 2,791,703).

The debt under collection represents the uncollected amount of cheques issued from non-resident counterparties.

The movement in provision for other debtors is detailed as below:

	31 December 2016	31 December 2015
Balance at 1 January	(1,217,453)	-
Provision charge	(461,683)	(1,368,417)
Translation difference	283,285	150,964
Balance at the end of the year	**(1,395,851)**	**(1,217,453)**

18. Customer deposits

Customer deposits as at 31 December 2016 and 2015 are composed as follows:

	31 December 2016	31 December 2015
Current accounts:		
Individuals	257,422,866	199,134,397
Private enterprises	241,067,645	198,430,387
State owned entities	34,495,732	31,792,919
	532,986,243	**429,357,703**
Deposits:		
Individuals	1,664,527,013	1,628,151,201
Private enterprises	79,179,914	99,794,968
State owned entities	22,927,856	19,471,358
	1,766,634,783	**1,747,417,527**
Other customer accounts:		
Individuals	6,687,187	6,469,023
Private enterprises	41,100,198	38,715,383
State owned entities	777,599	689,171
	48,564,984	**45,873,577**
	2,348,186,010	**2,222,648,807**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed by original maturity and currency as follows:

	31 December 2016			31 December 2015		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**224,120,796**	**308,865,447**	**532,986,243**	**196,076,098**	**233,281,605**	**429,357,703**
Deposits						
On demand	19,827,934	78,552,464	**98,380,398**	9,691,780	53,395,905	**63,087,685**
Up to 39 days	17,651,505	38,425,826	**56,077,331**	22,686,160	43,338,054	**66,024,214**
40-99 days	38,716,059	52,721,369	**91,437,428**	45,987,538	57,465,204	**103,452,742**
100-189 days	79,723,914	83,812,629	**163,536,543**	93,794,841	81,311,029	**175,105,870**
190- 370 days	472,313,976	480,735,241	**953,049,217**	503,697,488	454,960,228	**958,657,716**
371 days and over	196,331,753	198,883,930	**395,215,683**	187,050,290	180,309,343	**367,359,633**
Accrued interest on deposits	5,768,724	3,169,459	**8,938,183**	9,798,932	3,930,735	**13,729,667**
Total deposits	**830,333,865**	**936,300,918**	**1,766,634,783**	**872,707,029**	**874,710,498**	**1,747,417,527**
Other customer accounts	**20,890,928**	**27,674,056**	**48,564,984**	**15,847,653**	**30,025,924**	**45,873,577**
Total customer deposits	**1,075,345,589**	**1,272,840,421**	**2,348,186,010**	**1,084,630,780**	**1,138,018,027**	**2,222,648,807**

Other customer accounts are composed as follows:

	31 December 2016			31 December 2015		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Guarantees for letters of credit	-	8,051	**8,051**	39,749	800,927	**840,676**
Escrow accounts	12,651,425	16,257,111	**28,908,536**	8,388,305	14,579,842	**22,968,147**
Payment orders to be executed	549,502	563,360	**1,112,862**	480,452	4,427,800	**4,908,252**
Other	7,690,001	10,845,534	**18,535,535**	6,939,147	10,217,355	**17,156,502**
	20,890,928	**27,674,056**	**48,564,984**	**15,847,653**	**30,025,924**	**45,873,577**

Deposit guarantee for letters of credit represent the cash collateral held by the Bank against similar collateral provided by the Bank to correspondent banks for letters of credit opened on behalf of its customers.

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank.

Other represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

19. Due to banks and financial institutions

Due to banks as at 31 December 2016 and 2015 consisted as follows:

	31 December 2016	31 December 2015
Treasury bills sold under Repo agreements with Central Bank	152,273,394	67,104,243
FX securities sold under Repo agreement	48,556,497	5,435,353
Deposits from banks	60,877,840	73,320,613
Current accounts of non-resident banks	2,760,572	3,303,595
Current accounts of resident banks	49,031	2,733
Borrowing from financial institutions	12,393,420	19,199,192
	276,910,754	**168,365,729**

Treasury bills and Albanian Government Bonds and FX securities with a total value of USD 244,395,436 (2015: USD 92,614,675) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 31 December 2016 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 11,725,000 outstanding as at 31 December 2016 (31 December 2015: EUR 17,592,267) bearing an interest rate of 2.45%, obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the Bank. Part of this borrowing as at 31 December 2015 are the two tranches amounting to EUR 5,000,000 each, disbursed from EFSE to BKT Kosovo, during December 2013 and June 2014.

20. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2016 of USD 4,672,432 (2015: USD 2,828,259) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

21. Deferred tax liabilities

Deferred income taxes are calculated using a tax rate of 15%. The movement on the deferred income tax account is as follows:

	31 December 2016	31 December 2015
Liability at 1 January	722,574	1,846,611
(Income) / expense for the period	649,862	(967,783)
Exchange differences	(33,851)	(156,254)
Liability at the end of the year	**1,338,585**	**722,574**

Deferred income tax liabilities/(assets) are attributable to the following items:

	31 December 2016	31 December 2015
Deferred income on fees on loans	(634,241)	(611,049)
Decelerated depreciation	(712,719)	(667,426)
Provision of other debtors	(269,136)	(274,228)
Allowance for loan impairment	1,277,626	1,291,262
Fair value reserve for AFS securities	1,677,055	984,015
	1,338,585	**722,574**

22. Accruals and other liabilities

	31 December 2016	31 December 2015
Payments in transit	2,214,156	1,964,021
Creditors	1,835,783	1,807,329
Bonus payable	1,638,948	1,489,200
Accrued expenses	1,636,320	1,694,662
Reversed temporary differences payable to tax authorities	1,387,135	1,413,380
Due to tax authorities	1,050,847	4,094,179
Liability for retiring employees (note 3(s).ii.)	927,279	962,042
Payables to constructors for home loans	471,363	529,014
Social insurance	165,204	169,580
Cash guarantees from suppliers	81,730	62,954
Foreign exchange contracts revaluation loss	-	302,117
	11,408,765	**14,488,478**

Creditors represent balances that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

Bonus payable represents the accrued yearly performance bonus for the bank’s staff and management, which is expected to be paid within the first quarter of 2017.

23. Subordinated debt

Subordinated debt of USD 26,441,225 (2015: 27,291,374) represents the equivalent amount of a ten-year facility of EUR 25 million, bearing an interest rate of 5.15% and payable on its maturity date with bullet payment. Subordinated debt was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 22 December 2015 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments.

Pursuant to the approvals granted by Bank of Albania, the subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank.

24. Shareholder's equity and reserves

Share Capital

At 31 December 2016 the authorised share capital comprised 20,242,915 ordinary shares (2015: 16,754,000). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of consolidated financial statements from functional currency to presentation currency.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

Retained earnings

Retained earnings as at 31 December 2016, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used its retained earnings amounting to Lek 5,339,908 thousand (equivalent of USD 43,088,100.25) to increase its share capital on 24 March 2016. Retained earnings are distributable.

25. Interest income

Interest income is composed as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Placements with banks and balances with Central Bank	5,529,510	4,185,824
Treasury bills and investment securities	51,638,981	56,265,584
Loans to customers	66,512,854	67,522,722
	123,681,345	**127,974,130**

Interest income can be further detailed as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Held-to-maturity investments	11,914,047	10,744,351
Trading and available-for-sale financial assets	45,254,444	49,707,057
Loans and receivables	66,512,854	67,522,722
	123,681,345	**127,974,130**

Interest income on individually impaired loans for the year ended 31 December 2016 was USD 422,648 (2015: USD 76,269).

26. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Due to banks and financial institutions	5,666,286	8,472,657
Customer deposits	21,024,727	27,513,853
	26,691,013	**35,986,510**

27. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission income		
Payment services to clients	4,789,737	4,307,446
Inter-bank transactions	4,568,008	2,928,321
Electronic banking transactions	2,768,806	2,167,690
Customer accounts' maintenance	1,966,989	1,449,964
Lending activity	939,422	996,383
Cash transactions with clients	382,840	285,213
Other fees and commissions	166,917	153,453
	15,582,719	*12,288,470*
Fee and commission expense		
Inter-bank transactions	(802,633)	(288,189)
Customer accounts' maintenance	(107,870)	(80,826)
Transactions with clients	(65,581)	(962)
Payment services to clients	(30,389)	(30,367)
Other fees and commissions	(454)	-
	(1,006,927)	*(400,344)*
Fees and commissions, net	**14,575,792**	**11,888,126**

28. Foreign exchange revaluation gain/(loss), net

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital revaluation for the year ended 31 December 2016 is USD 5,438,568 (2015 loss: USD 13,610,685).

29. Other (expense) / income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Other income		
Gain on sale of property and equipment	217,423	29,508
Income from operating lease	167,914	177,402
Gain on recovery of written off loans to customers	103,437	181,520
Reversal of other debtors	63,089	190,431
Gain on sale of assets acquired through legal process	36,686	19,469
Reversal of staff pension fund	18,320	52,732
Sundry	17,869	46,018
	624,738	*697,080*
Other expense		
Provisions on assets acquired through legal process	(1,184,521)	-
Loss on sale or write off of fixed assets and repossessed assets	(621,276)	(871,788)
Provision of other debtors	(461,683)	(1,368,417)
Write off of loans to customers, net	(125,193)	(1,145,037)
Sundry	(64,648)	(57,681)
	(2,457,321)	*(3,442,923)*
Other (expense) / income, net	**(1,832,583)**	**(2,745,843)**

A reconciliation of expenses related to write off of loans to customers is as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Write off of loans to customers, gross	(816,442)	(4,768,386)
Provision reversal of written off loans	691,249	3,623,349
Write off of loans to customers, net	**(125,193)**	**(1,145,037)**

30. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Salaries	12,762,579	12,566,181
Performance bonus	2,043,539	2,003,636
Social insurance	1,234,841	1,215,911
Training	356,853	296,171
Life insurance	87,890	96,125
Other	306,503	238,883
	16,792,205	**16,416,907**

31. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Deposit insurance expense	6,220,870	5,406,957
Credit/debit cards expenses	3,676,729	2,987,281
Lease payments	2,613,453	2,492,867
Telephone, electricity and IT expenses	2,282,829	2,217,879
Marketing expenses	2,121,634	1,441,210
Repairs and maintenance	1,925,469	1,885,667
Security and insurance expenses	966,924	891,992
Other external services (including external audit fees)	853,237	835,363
Transportation and business related travel	767,103	793,472
Office stationery and supplies	380,657	419,509
Taxes other than tax on profits	327,415	153,091
Representation expenses	260,705	231,874
Sundry	1,003,043	720,495
	23,400,068	**20,477,657**

32. Income tax

Income tax is comprised of:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	10,319,749	9,923,436
Deferred tax (income)/expense (note 21)	649,862	(967,783)
	10,969,611	**8,955,653**

The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before taxes	**69,411,897**	**58,819,735**
Computed tax using applicable tax rate of 15 %	10,411,785	8,822,960
Non tax deductible expenses	510,389	473,543
Foreign exchange difference	47,437	(340,850)
Income tax	**10,969,611**	**8,955,653**
Effective tax rate	**15.80%**	**15.23%**

33. 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 31 December 2016. 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.

Balances and transactions with related parties

	31 December 2016	**31 December 2015**
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	92,422	10,935
Placement with Albania Leasing	349,427	547,655
Loans to customers:		
KEDS / KESCO	799,969	770,493
ALBtelecom	11,451,942	8,058,495
GAP Pazarlama FZE	2,220,164	1,096,572
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	12,727,456	13,114,251
Albania Leasing	255,649	323,921
Other assets:		
Receivables from ALBtelecom Sh.a	5,162	-
Total assets	**27,902,191**	**23,922,322**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	1,484,284	5,684,735
Borrowings from Albania Leasing	401,013	601,540
Customer deposits:		
ALBtelecom Sh.a.	288,375	1,096,735
Albania Leasing	37,319	116,725
Other liabilities:		
Payables to Calik Holding	-	174,811
Payables to ALBtelecom Sh.a	12,540	-
Total liabilities	**2,223,531**	**7,674,546**

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	2016	2015
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	99,484	377,961
KEDS / KESCO	32,386	85,004
ALBtelecom Sh.a.	660,044	428,454
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	984,071	584,340
Albania Leasing	23,879	4,733
Aktifbank	106,533	-
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(143)	(3,384)
Aktifbank	(149,099)	(353,940)
Albania Leasing	(6,813)	(1,540)
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	30	132
KEDS / KESCO	3,039	14,276
Calik Enerji Sanayi Ve. Ticaret A.S	38,954	49,843
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	9,268	3,777
Other income:		
Operating lease income from ALBtelecom Sh.a.	64,840	64,943
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(1,173,301)	(1,047,919)
Net	**693,172**	**206,680**

Balances and transactions with directors and executive officers

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

	Year ended 31 December 2016	Year ended 31 December 2015
Directors	114,014	114,323
Executive officers	2,843,827	2,779,429
	2,957,841	**2,893,752**

As at 31 December 2016, the total deposits of directors held with the Bank were USD 970,990 (31 December 2015: USD 1,074,956), while the outstanding loans granted to directors were USD 333,959 (31 December 2015: USD 174,098).

34. Contingencies and commitments

Guarantees and letters of credit

	31 December 2016	31 December 2015
Guarantees in favour of customers	60,842,387	69,121,558
Guarantees received from credit institutions	6,712,448	24,907,704
Letters of credit issued to customers	3,021,090	7,639,499

34. Contingencies and commitments (continued)

Guarantees and letters of credit issued in favour of customers mostly are counter guaranteed by other financial institutions or fully cash collateralised.

At present the Bank is operating as an agent of the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the Government of Albania to cover the reimbursement of their lines of credit.

Other

	31 December 2016	31 December 2015
Undrawn credit commitments	111,676,030	97,321,211
Outstanding cheques of non-resident banks	358,928	262,371
Spot foreign currency contract	116,489,664	92,163,301
Collaterals for loan portfolio	2,352,595,664	2,237,788,492
Securities pledged as collateral (note 19)	244,395,436	92,614,675

Legal

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 31 December 2016.

The Bank has estimated a liability payable to tax authorities (See Note 22) at USD 1,387,135 (2015: USD 1,413,380) in relation to an ongoing court case for income tax. Although, the Appeal Court has recently decided against the Bank, the case has been brought to the Supreme Court and it is pending the final decision. In case the claim of the Bank would be rejected by the Supreme Court, an additional amount of USD 320 thousand would increase the current liability to tax authorities.

Lease commitments

Such commitments for the years ended 31 December 2016 and 2015 are composed as follows:

	31 December 2016	31 December 2015
Not later than 1 year	2,441,333	2,460,804
Later than 1 year and not later than 5 years	4,526,889	5,341,596
Later than 5 years	1,675,590	1,353,961
Total	**8,643,812**	**9,156,361**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2016 with a maximum duration of ten years.

The Bank had 88 rented buildings as at 31 December 2016, in which are included the rented space dedicated to offsite disaster recovery and the 27 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months' notice. Therefore, at 31 December 2016, the maximum non-cancellable commitment payable not later than one year is USD 610,333 (2015: USD 615,201).

The Bank leases a number of properties under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period.

35. Subsequent events

The Bank has recently faced an armed robbery during its cash in transit activity to the Tirana-Rinas Airport, as a result of which a total amount equivalent of USD 3.2 million has been stolen. The Bank has immediately initiated the reimbursement procedures from the insurance company, while the case is closely investigated by the regulatory authorities. The amount is within the insurance coverage limit.

However, there are no subsequent events that would require either adjustments or other additional disclosures in the financial statements.