ANNUAL REPORT ON DECEMBER 31
2021

Our Mission

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who have the capacity to save and who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

We focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility among business clients as well as private individuals.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.

Key financial figures

Return on equity

2.3%
-13.0%
Dec-2020 Dec-2021

Cost-Income ratio

164.9%
93.4%
Dec-2020 Dec-2021

Capital adequacy ratio

16.0%
14.6%
Dec-2020 Dec-2021

Share of defaulted loans

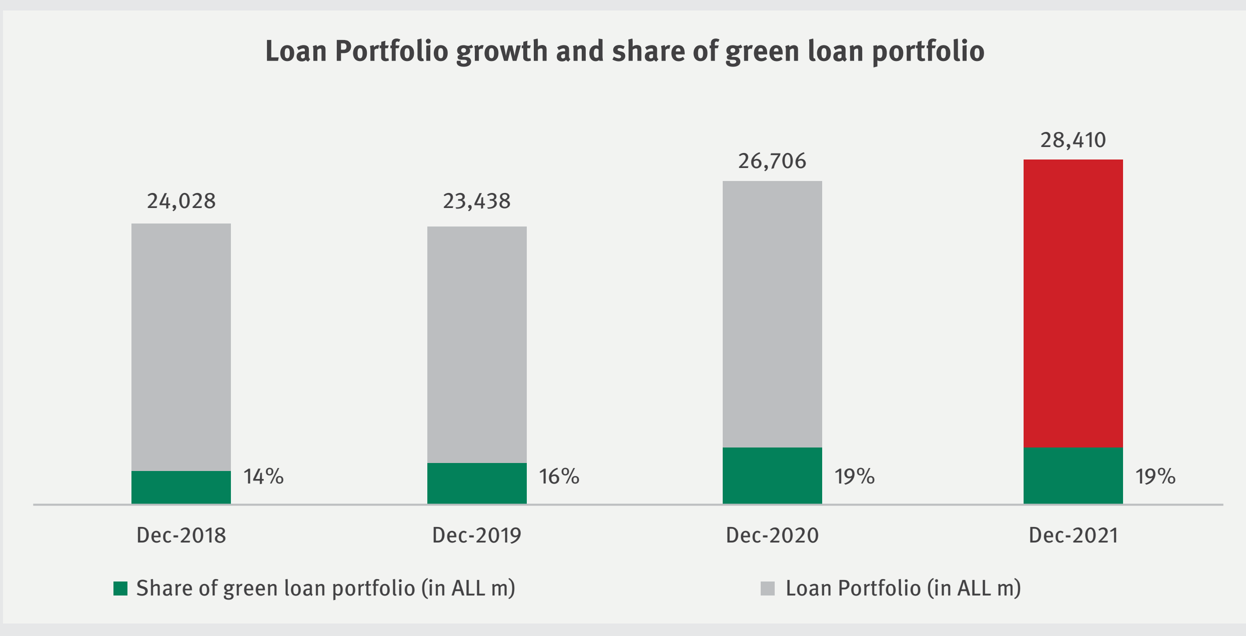
5.7%
3.7%
Dec-2020 Dec-2021

Cost of risk

1.3%
-0.7%
Dec-2020 Dec-2021

Net interest margin

2.3% 2.3%
Dec-2020 Dec-2021



Free e-charging station for the public

For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the ProCredit Group Impact Report.

Content

I.	**Who We Are Today**	**6**
II.	**Digital Approach**	**9**
III.	**Green Approach**	**10**
	Sustainable Development Goals (SDG)	**13**
IV.	**Business Approach**	**15**
	Business Clients	**15**
	Private Clients	**17**
V.	**Risk Management**	**18**
	Credit Risk Management	**18**
	Risk tolerance / appetite of ProCredit Bank Albania	**21**
VI.	**Comprehensive Statement**	**24**
VII.	**Independent Auditor’s Report and Financial Statements**	**26**

Who We Are Today

Since its establishment, ProCredit Bank has aimed to achieve a sustainable impact on its clients, society and the environment through its operations. Over the years, our approach to and definition of “economic development” have changed from providing support through financing to taking a structured and proactive approach to sustainable development.

ProCredit Bank is committed to being a responsible bank with a moral compass, guided by growth-oriented principles. The prevailing opinion in the banking market is that the ultimate purpose of each company should be to maximise the value of its shares, thus meaning increased profit and higher share prices. To us, profit maximisation is not our primary goal. Although ProCredit Bank is a commercial bank, we believe that capital should be used to improve the living situation of many and not to enrich a selected few. Being loyal to these ideals means abstaining from activities that may generate profit but are harmful from a social or environmental perspective.

ProCredit Bank takes the same approach to both its clients and its staff: in order to solve complex problems under difficult circumstances, we work together as partners with a sense of joint responsibility and mutual respect. The bank’s unique approach would not be possible without a strong foundation, which rests on a company culture that is shaped every day through thoughts and actions. ProCredit Bank’s identity is defined by the collective identities of the individuals working for us. The bank believes that companies are defined by their people and not by their mission statements. This is the foundation of our community, our res publica, which emphasises a common feeling of ownership and responsibility for everything the bank stands for.

Standing from left to right: Mirsad Haliti, Qëndresa Mehmeti, Diamant Ibrahimi.

ProCredit Bank Sh.A Albania is 100% owned by ProCredit Holding based in Germany. The bank itself is not a shareholder and does not own any other company. In addition to the Shareholders Assembly, the main governing bodies of the bank are: the Management Board, the Board of Directors and the Audit Committee. The Board of Directors of the Bank gathers four times a year. The meetings of the Audit Committee are organized on the same frequency. The Board of Directors of the Bank consists of 5 members, the Audit Committee and the Executive Directorate consist of 3 members per each.

The following is the composition of the bank's governing bodies:

Members of Management Board are:

Mirsad Haliti
Qëndresa Mehmeti
Diamant Ibrahimi

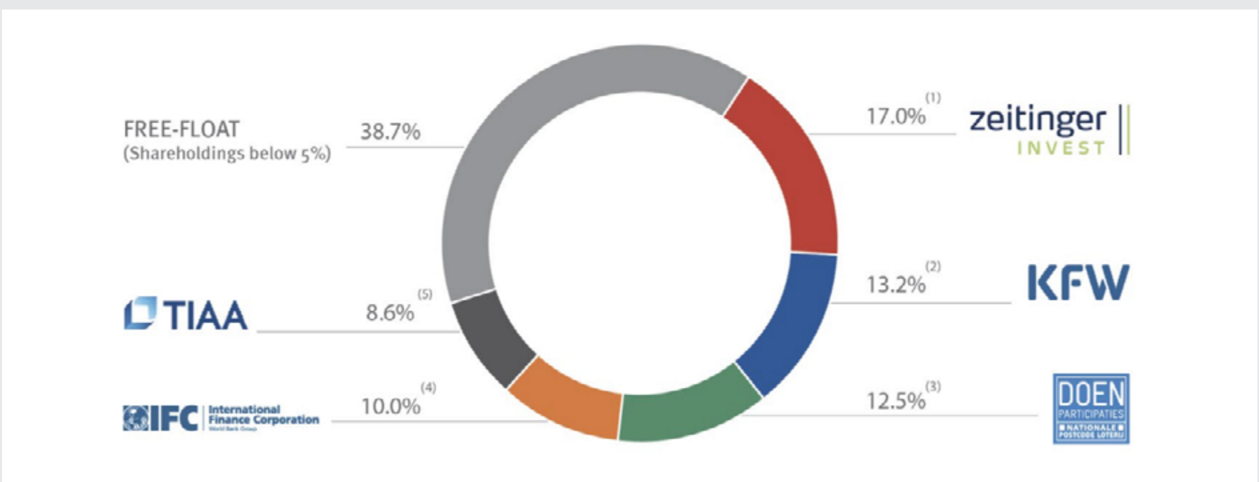
Board of Directors members are:

Eriola Bibolli (Chairman of the Board)
Wolfgang Bertelsmeier
Jordan Damchevski
Jovanka Joleska Popovska
Christian Edgardo Dagrosa

Audit Committee:

Jovanka Joleska Popovska
Vesna Paunovska
Nicole Kraft

ProCredit Bank Albania is owned by ProCredit Holding AG & Co KGaA, the parent company of the development-oriented ProCredit group, comprising commercial banks for SMEs with an operational focus in southeastern and eastern Europe.



Shareholder structure

According to voting rights notifications, as of year-end approximately 55% of the shares in ProCredit Holding were held by the core shareholders: Zeitnger Invest GmbH, Kreditanstalt fur Wiederaufbau (KFW), DOEN Participaties BV, and the International Finance Corporation (part of the World Bank Group). ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with close to 3% of the shares.

The Teachers Insurance and Annuity Association of America holds 8.6% of the shares. The free float, defined as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2021 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG&Co. KgaA by FMO (Netherlands Development Finance Company), BIO (Belgain Investment Company for Developing Countries), Omidyar-Tufts Microfinance Found, MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.

ProCredit is rated by the international rating agency Fitch Ratings.

Supervised by BaFin

We work in accordance with the best intern tional banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

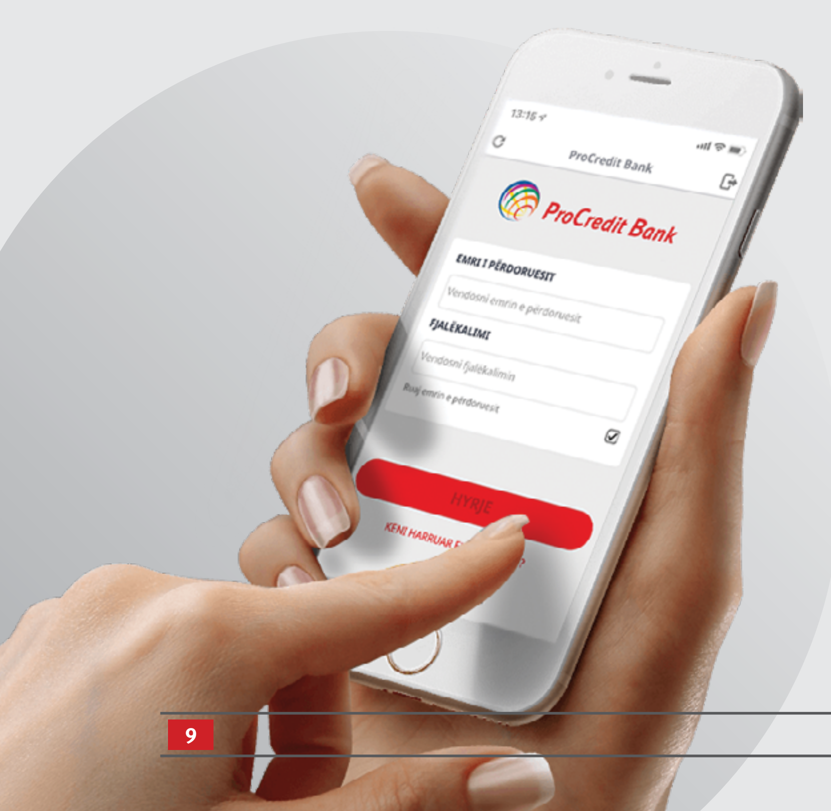
Digital Approach

When conducting banking operations, development, technology and digitalisation are becoming more of a priority. This holds true for ProCredit Bank as well; automation and digitalisation not only improve our client experience, but also creates a competitive advantage for the bank.

ProCredit Bank uses advanced technology to provide services to its clients. In the countries in which ProCredit Bank operates, we are pioneers of innovation in the financial industry. Our level of digitalisation in banking has enabled us to continue implementing our business activities without significant restrictions during the pandemic.

As an outcome of the implementation of the Direct Banking strategy, our clients no longer have the need to spend their time visiting the bank to carry out simple transactions. Instead, our client advisers spent this time having in-depth discussions with our clients, hearing their stories, understanding their plans and financial capacity to invest; get to know the people behind these stories and understand how we can better adapt our services to their needs so that we succeed together.

Ultimately, the goal of ProCredit Bank is to continue providing financial and non-financial services via various digital channels, to give clients a full banking experience while on the other hand, continue to provide expertise for different financing needs through our client advisers.



Green Approach

Environmental protection is often overshadowed by the pressing issues of everyday life, which makes the market in general less conducive to green finance. As a result, throughout the years, but especially in 2021, ProCredit Bank Albania has been doing more than merely designing and issuing green loans – we have devoted resources to holding awareness-raising campaigns and providing regular training sessions for our own staff, thus enabling them to improve the environmental performance of the companies we work with. The growth of the bank's green loan portfolio is testimony to its intensive e orts in this regard. By December 2021, we had achieved a 19% share of green loans in our total loan portfolio. Comprehensive training for staff is provided not only at the bank level, but also at the group level at the ProCredit Management Academy and the Banker Academy in Fürth, Germany.

Minimising negative environmental impact, along with proactively promoting sustainability in business, is an integral part of ProCredit Bank's strategy – not only in relation to its loan operations or when providing financial services to its clients, but also when carrying out daily activities.

Offering green financial services also means taking a look at the credibility of ProCredit Bank itself, especially where its performance with regard to the environment is concerned. Green finance at ProCredit encompasses the three pillars of the bank's Environmental Management System (EMS), which was introduced groupwide in 2011:

Internal environmental management

Our approach is based on processes and procedures that help us systematically reduce our direct environmental footprint.

Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.

Management of environmental and social risk in lending

We recognise our responsibility for our clients' environmental and social (E&S) impact.

In order to mitigate E&S risks and assess the potential E&S impact of investments financed, a thorough E&S assessment is an integral part of our credit risk analysis.

Green finance

We aim to have a positive environmental impact by promoting green investments in our countries of operation.

We support clients who want to improve their business processes in an environmentally sound manner by investing in energy effciency, renewable energy or environmental protection.

Internal Environmental Management – encompasses internal measures to minimise the environmental impact of ProCredit Bank by continuously monitoring our environmental performance when it comes to the consumption of natural resources, the transition to sustainable use of resources, renewable energy, and the renovation of business premises to achieve more efficient use of resources.

Management of environmental and social risk in lending – encompasses not only internal measures but also mechanisms to assess the environmental and social impact of ProCredit clients. In this regard, our Exclusion List, which can be found on the bank's website, specifies the business activities that we refuse to support. However, given the long-lasting negative impact of single-use plastics on the environment, during 2021, we developed a special lending strategy towards plastic producers

In this regard, through the strategy we have addressed all single use plastic products according to products use and lifetime, size, source, design of the product and decomposition.

Therefore we have classified producers into three categories:

- **Blacklist**
  All types of plastic have been banned by the EU from 3 July 2021 pursuant to EU Directive 2019/904 (mostly replaceable single-use plastic). No more financing of these companies, unless the client has a convincing business plan to phase out the black-listed product within a short period.

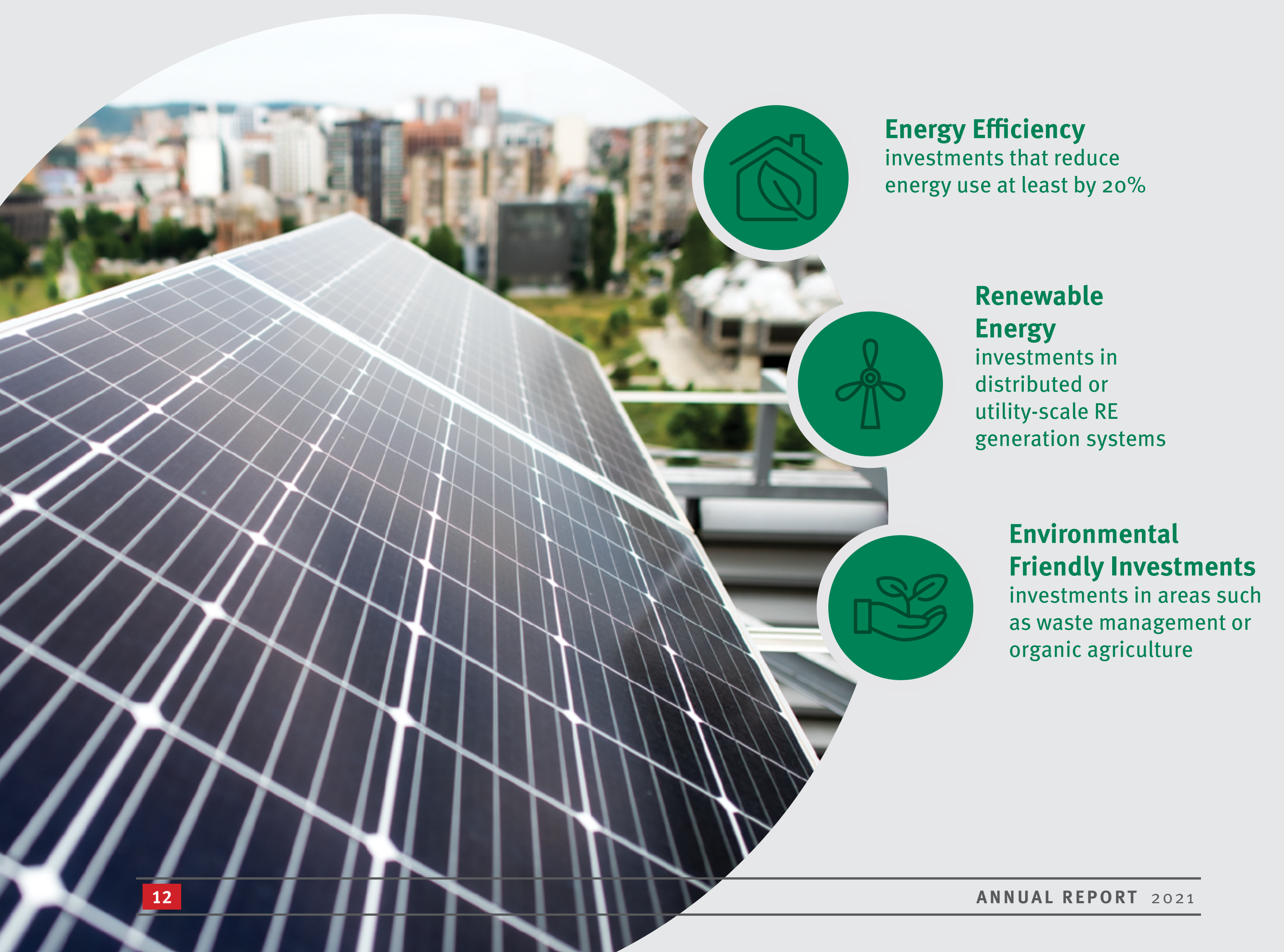
- **Greylist**
  All other types of single-use items that present high environmental impact if not disposed of properly, especially packaging, bottles, foils and also micro plastics.
  New clients: No financing
  Existing clients: Clients are required to follow and continuously improve sustainable practices, i.e. reduce waste by substituting single-use plastic with biodegradable products, or by adopting recycling methods and taking responsibility for collecting their products after use.

- **Whitelist**
  Plastic products with a long lifetime for which no alternatives exist or alternatives with a higher environmental impact.
  Our bank will continue to finance these clients, but will still discuss with them options for sustainable plastic production and support them in any steps towards sustainability they decide to take.

Green Finance – Over the last year, ProCredit's green loan portfolio has reached an update of 7.9% compared to 2020 and which makes up 19% of the total loan portfolio.

ProCredit Bank's green lending approach has been continuously refined over the years and currently reflects our best practices, based on more than a decade of experience in green lending to SMEs in Albania.

Green finance at ProCredit Bank is divided into three distinct categories:



Sustainable Development Goals (SDG)

ProCredit Bank contributes to several SDGs directly and indirectly. Given the pandemic situation it is only fair to compare the results of 2021 with those of 2019, as during 2020 most of our staff worked remotely, thus significantly reducing our environmental indicators.

With regard to the three pillars of Green Finance, a summary of our SDG contributions and related material topics during 2021 is provided below.

SDG and related material topic(s)	Associated target	Selection of relevant business actions/indicators which contribute to meeting the target
7 AFFORDABLE AND CLEAN ENERGY	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency	"… Monitoring and reporting on the amount of energy produced, purchased, and consumed, according to source. Supporting new business models to deliver sustainable and renewable energy." – Energy consumption within the organisation It has been reduced by 14% during 2021 – Installed renewable energy capacity at our own premises (HO) (17.5 kWp) – RE projects in loan portfolio (18.3 MW installed capacity)
8 DECENT WORK AND ECONOMIC GROWTH	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10- year framework of programmes on sustainable consumption and production, with developed countries taking the lead 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms	"…Innovating and/or investing energy efficiency in buildings, road safety equipment, autonomous vehicles, smart metering, water and sanitation infrastructure, timber buildings and additive manufacturing, GHG reduction …" – We promote investments in energy and resource efficiency, renewable energies and environmental protection "…Responsibly influencing consumer and consumption patterns and promoting sustainable consumption and lifestyles through, for instance, product development and marketing. Applying sustainability aspects to suppliers, not only to reduce the cost of supply but also to simultaneously implement e ciency measures and reduce the environmental footprint in the supply chain. Improving the e ciency of use energy, water,(raw) materials and other resources…" – Annual selection of green topics with marketing activities in order to address clients, employees, and the general public across all ProCredit countries – Printing paper use reduced by 26%, water use reduced by 29% compared to 2019 – Development of sustainable procurement guidelines, including definition of what a sustainable supplier is.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.3 Increase the access of small scale industrial and other enterprises in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	"... Implementing circular business models such as using renewable, bio-based or fully recyclable inputs, recovering resources, extending product lifecycle. Tracking and reporting waste generated by type, treatment and disposal destination..." – 100% use of either certified or recycled paper – Development of a groupwide strategy and Exclusion List to reduce the production and use of plastic "...In this context, working with the public sector and local organisations to build up networks ensuring financial inclusion and equal access for SMEs, smallholders, and business led by the vulnerable. Providing innovative financing mechanisms like green bonds and impact investing to foster a sustainable domestic economy..." – Promotion of the agreements with EBRD. – Financing investments by business and private clients in photovoltaic systems
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.2 By 2030, achieve sustainable management and efficient use of natural resources 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.	"... Reducing energy consumption in own operations e.g. through energy efficient technologies, obtaining sustainability certifications for buildings, creating new business models to deliver energy efficiency technologies..." "...Understanding sustainable management and resource efficiency in all operations, products and services. Establishing and maintaining proactive environmental management systems. Establishing measurable objectives and/or targets for improving environmental performance and resource utilisation. Regularly tracking and reporting energy, water, and materials consumed and treated in business operations and improving efficiency by reusing/ recycling..." - Promotion of green finance products - Regular certification of environmental management systems in the bank in accordance with ISO 14001

Business Approach

Business Clients

ProCredit Bank focuses on serving small and medium enterprises, as we are convinced that these enterprises create the largest number of jobs and make an essential contribution to the economies in which they operate. ProCredit Bank's approach to managing relations with business clients and the professionalism of the bank's business advisers enables us to understand our clients' needs and support them and their businesses with appropriate and responsible financial services.

In line with the group's strategy, ProCredit Bank strives to be a Hausbank for its clients, i.e. the bank not only finances loans and provides other financial services for business clients, but also offers a broad range of modern financial services that small and medium enterprises need to expand. These services include an advanced electronic platform for e-banking, through which business clients can carry out domestic and international payments in a fast and secure way, at low cost; pay salaries and execute mass payments; pay bills; make customs, tax and utillity payments; and manage their loans and credit lines. Our clients can also make card payments; utilise our trade financing services; and manage their funds without being limited in time, such as withdraw or deposit large amounts of money at our 24/7 Zones, which are equipped with ATMs and DropBox.

Our banking services help businesses expand and operate more efficiently, which increases sustainability. The bank aims to enter into long-term partnerships with small and medium enterprises and follow up on their progress. These elements, combined with the specialised experience of our business advisers, are the foundation of our model for helping businesses to be successful.

Ilir Pepa
IMES-ALB SHPK
Shoe manufacturing

Due to the ongoing struggle with the pandemic, 2021 was a challenging year for small and medium-sized businesses. ProCredit Bank continued to finance businesses and support them during this difficult time not only through financing but also by providing sound advice on how to better manage the challenging new environment. The bank placed special emphasis on encouraging and promoting investment loans for all small and medium enterprises, especially those involved in production, thereby achieving the highest market share for the production sector.

As a bank that conducts responsible banking operations, ProCredit Bank makes every effort to act in compliance with environmental standards. The bank continued to support its clients who invested through "green loans," a term that characterises all financial services geared towards investments in energy-saving measures, renewable energy sources, and other environmentally friendly measures. In 2021, the bank continued to pursue its goal of motivating more business clients to make such investments, with special emphasis on saving electricity through investing in solar panels, upgrading production equipment, and taking measures that reduce water or air pollution.

ProCredit Bank also offers savings accounts to its business clients, enabling them to transfer surplus liquidity from their businesses to accounts with interest that are flexible to use. Our Business Client Advisers are the key to implementing our strategy of developing long-term professional relationships with our business clients. They are the primary channel not only for providing banking services to our business clients, but also for delivering professional advice and meeting with small and medium clients to assess their needs. The bank continuously invests in the training and professional development of its Business Client Advisers.

Apart from supporting the short term and mid-term investments of our business clients, in 2022 the bank will continue to promote long-term investments, in particular green investments with special emphasis on energy saving, and to provide targeted support to production businesses. Likewise, the bank will continue to support businesses in channelling their sales through online payment platform, ProCredit Bank will remain a Hausbank for small and medium business clients and continue to establish long-term collaboration with these clients.

Private Clients

We aim to be the bank of choice for individuals and households willing to save or invest in improving their living conditions. This is due to our tailor-made approach, prudent financing, and top-notch banking technology that is available to them 24/7.

In terms of accessibility of services, the pandemic situation found us ready to serve clients even from a distance, further enforcing our belief that digital banking is the future and the best way for us to move forward. The use of our online platforms by private individuals increased in 2021 due to numerous new features and improvements in the speed and safety of our platforms. Apart from fully implementing our digitalisation process, in July the bank pioneered the introduction of online account opening. The process is done fully online by following instructions in our mobile app and is finalised with a video call between the client and a Client Adviser.

In cooperation with construction companies that are well known for their high-quality work in the construction market, the bank has signed agreements, that make it possible for families with a solid financial background but without a mortgage to support their investment plan and we have facilitated the financing process.

ProCredit Bank acknowledges the importance of our small initiatives and their enormous impact on Albanian households; therefore, we are always working towards improving customer experience through our digital channels and tailor-made approach to private clients.

Risk Management

Credit Risk Management

ProCredit Bank defines credit risk as losses to be incurred if a party to a transaction cannot fulfil its contractual obligations, either in full or on time. The bank distinguishes between client credit risk and counterparty risk within the context of overall credit risk (including issuer risk). Our most significant risk is credit risk, and consumer credit exposures account for the majority of that risk. ProCredit Bank's core business is to give financial support to small and medium- sized business clients as well as to private individuals that value savings and choose long-term investments. The bank has recently begun to focus on Very Small enterprises, which could include family companies and agricultural producers.

The objectives of credit risk management are to achieve high loan portfolio quality, minimise risk concentrations within the loan portfolio and ensure appropriate coverage of credit risks with loan loss provisions. The bank's framework for managing customer credit risk is presented in the relevant policies and standards, which are based on ProCredit group policies and outline the bank's essential principles for managing credit risk. Taken together, these strategies illustrate the ProCredit banks' successful lending operations in developing and transitioning economies. Furthermore, these documents are fully compliant with Albanian's laws and regulations. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The bank uses several approaches to limit credit risk during the credit risk management process, which includes a thorough examination of our clients' debt capacity. These include taking steps to avoid over-indebtedness, reviewing loan exposures on a regular basis, and actively managing problematic credit exposures. Furthermore, the use of well-designed and well-documented processes, the four-eyes approach, long-term relationships and regular communication with clients, as well as investment in well-trained and highly motivated staff, all help mitigate credit risk.

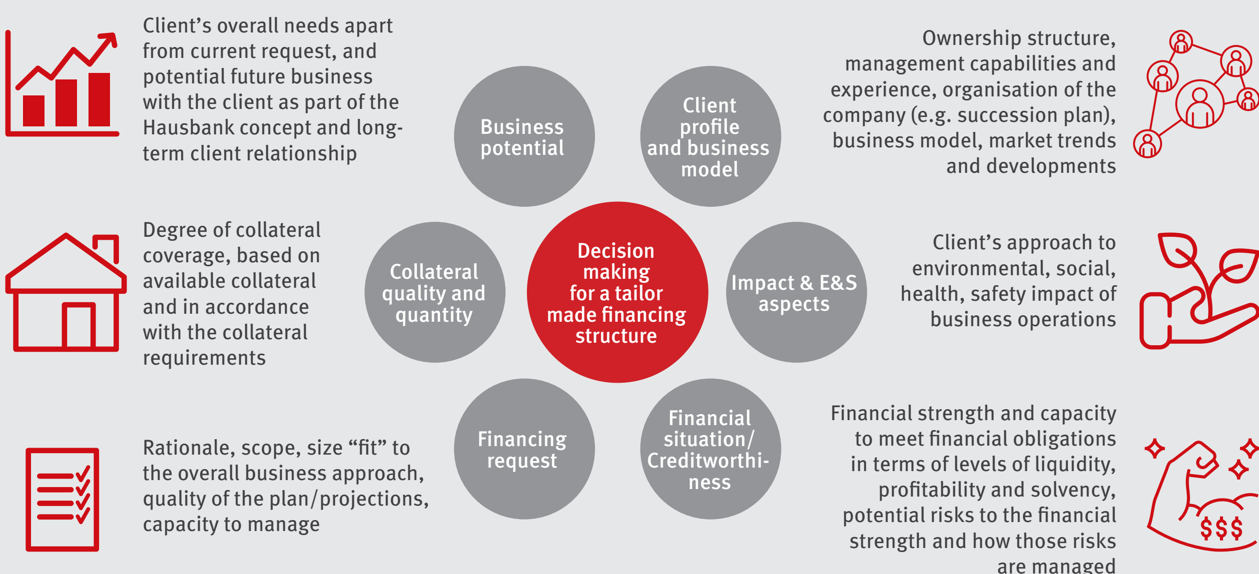
In addition, portfolio analysis is one of the bank's most essential competencies. Due to the highly dynamic macroeconomic environment in which we operate, this is applicable to both the bank and the entire group. The bank uses a loan portfolio monitoring system to comply with International Financial Reporting Standard 9 (IFRS 9) by identifying and managing potential problems early on. Nevertheless, the bank's decision-making is also based on several macroeconomic analyses with an emphasis on market analysis and economic sectors.

Another factor that contributes to credit risk being well managed is that ProCredit Bank's loan portfolio is broadly diversified, and any potential concentration of credit risk is extensively assessed for its influence on the bank's ability to absorb it. Diversification entails a wide range of economic sectors and client groups, including medium, small, and very small firms, as well as private clients and institutions. ProCredit Bank also aims to provide clients with straightforward, easy-to-understand products, resulting in a high level of transparency for both sides.

We use a variety of credit risk management techniques when dealing with different client categories and loan exposures, such as task segregation for small and medium loan exposures, application of standardised and tested loan procedures in private client lending, identification of credit decision criteria, application of different collateral requirements based on loan amounts, and documentation of the client's credit history. Furthermore, the evaluation of collateral is carried out by licensed third-party firms, reducing the risk associated with collateral valuation.

Because the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet contractual obligations is viewed as an early warning of potential default, prompting a swift response by the bank. The monitoring mechanism, which employs early warning indicators, enables the bank to act quickly in the event of a probable default.

Our 360-degree approach to client and exposure assessment



The most significant new factor influencing credit risk during the 2020-2021 fiscal years, credit risk management was a major focus. Our broad market knowledge and ProCredit Bank's diligent customer selection have both contributed to prudent credit risk management. In the wake of the COVID-19 outbreak, ProCredit Bank took several steps to prevent loan portfolio quality from deteriorating. The first step was to be in constant contact with all business and private clients in order to get first-hand input on the potential impact on their operations and finances. This made monitoring and risk analysis easier, with a focus on individuals who would be the most affected by the pandemic situation. The bank was able to grant repayment relief to debtors who were experiencing financial difficulties as a result of the pandemic, thanks to instructions provided by the Bank of Albania on loan restructuring in response to COVID-19. These restructuring efforts were a useful tool during the pandemic's peak of uncertainty, and they were used again in 2021.

In parallel with these measures, ProCredit Bank intensified the annual monitoring of its customers by updating the risk analyses for all business customers. In this process, consideration was given to the impact of the pandemic on the economic sectors and the individual impact on the liquidity and payment capacity of companies. As a result of this intensified loan portfolio monitoring, risk classification downgrades were made where needed and restructuring measures were taken to prevent possible defaults.

Credit risk will continue to be a priority in 2022, both on a portfolio and individual basis. We can foresee prospective challenges or finance requests during the course of our clients' business activities since we keep a close eye on them.

Risk tolerance / appetite of ProCredit Bank Albania

The first important aspect in the determination of the Bank's risk appetite is the desired risk profile which is directly implied by the business model. Therefore, ProCredit's risk appetite is expressed, among other things, in the following business policy principles:

- Responsible banking for development including strong environmental/sustainability awareness
- Focus on core business: the provision of financial services to SMEs
- Provision of simple, transparent financial products for the target customers (PI)
- Modern banking services via electronic channels
- Avoidance of financing consumer goods
- Avoidance of risk concentrations
- Careful selection of Business and PI clients with the objective of long-term cooperation
- Structured, multi-phase selection process for all staff, as well as careful training of staff, during which great importance is placed on ethical, social and environmental aspects
- A vibrant risk culture that underlines the responsibility of each and every employee in the context of taking risks and which emphasises open communication and flat hierarchies

Based on these general principles, the Bank conducts annually, and ad hoc if necessary, a risk inventory process, in order to assess which risks could have a significant negative impact on financial position (in terms of capital adequacy, profitability or liquidity). Particular consideration is also given to risk concentrations.

After all risks have been identified, the second important aspect in this context is the maximum amount of risk that the Bank is willing to take and can accept with respect to its available funds. Risk appetite is defined as the overall aggregate risk for individual risk types that the Bank is willing to accept with respect to available funds, in order to achieve its strategic objectives and business plan. Accordingly, the management has defined the bank's risk appetite based on the internal capital adequacy assessment process (ICAAP). The guiding principle is that the bank cannot incur greater risks than it is able to bear, in this way capital adequacy can be ensured at all times. The risk appetite also implicitly covers the approach to risk management in the bank, including all policies, standards, guidelines, management instruments, risk reporting, controls and processes, as well as risk governance. The ICAAP consists of a normative and an economic perspective, which reflect the goal of continuing the bank's operations on an ongoing basis on the one hand and the goal of protecting creditors from an economic perspective on the other. The bank has defined a clear risk appetite for both, the normative and the economic perspective.

Normative perspective:

In order to ensure the normative perspective at all times, the bank complies to limits and reporting triggers, as defined by the regulatory requirements of the Bank of Albania (BoA) and ProCredit Group. The table below reflects the maximum risk appetite with respect to the normative perspective.

%	Group (CRR)		Local (BoA)
	Limit	Reporting trigger	Limit
CET1 capital ratio	10.00	11.00	6.75
T1 capital ratio	11.00	12.00	9.00
Total capital ratio	13.00	14.00	12.00

Economic perspective

On the basis of the simple development-oriented sustainable business model and the resulting stable risk profile, along with the strong risk management processes, the management determines that a maximum of 60% of the risk-taking potential (called resources available to cover risk, RAtCR) can be used to cover risks in the economic perspective.

In line with the business and risk strategy, the bank assumes the following material risks and assigns these risks percentages of the RAtCR in the economic perspective:

Credit risk: As we are the Hausbank for small and medium-sized businesses and focus on the provision of financial services, credit risk represents the most significant risk category for the bank. Credit risk refers to the risk that the party to a transaction fails to meet its contractual obligations in full or in on time and includes therefore the categories of customer credit risk, counterparty and issuer risk. Accordingly, this risk is assigned the highest share (38%) of the Bank's RAtCR.

Thanks to highly trained staff, as well as a strong internal control system and various instruments used specifically to manage **operational risk** (such as a risk event database), the Bank has historically experienced stable and low level losses from operational risks (including fraud risks). This risk is, therefore, assigned a relatively low share of 10% of the RAtCR.

Since the deposits of Bank's clients often have short maturities and as the local financial market offers limited mechanisms for hedging the **interest rate risk**, acceptance of interest rate risk to a certain degree is necessary for achieving the strategic objectives. This risk has thus been allocated a share of 10% of the RAtCR.

Although the bank pursues a conservative strategy with respect to **foreign currency risk**, and it aims to keep currency positions closed to the maximum possible extent, it is impossible to avoid currency risks in specific circumstances. Therefore, this risk is assigned a share of 2% of RAtCR.

Furthermore, the remained 40% of RAtCR represents a buffer, intended to cover other risks, such as Funding, Business and Income, as well as the stress scenarios.

Comprehensive Statement

In the context of specifications and principles set forth in the Regulatory Framework of the Bank of Albania, "On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators", ProCredit Bank sh.a. hereby declares:

Remuneration policy

In accordance with the ProCredit Bank remuneration policy, members of ProCredit Bank's Board of Directors are not paid a salary, but receive a per diem allowance whose amount is set periodically by the Shareholders' Assembly.

Members of Management Board of ProCredit Bank, as the highest executive officers, in accordance with the risk profile of the Bank, are paid on a monthly basis for an aggregated yearly amount of ALL 17,363,089. The bank's remuneration policy consists of monthly salaries which are set according to the job position, experience, responsibilities and tasks of each employee and does not provide for bonuses.

Other forms of compensation for employees include:

- Yearly private health insurance
- New-born child remuneration
- Travel and rental compensation
- Mobile telephone package

In order to ensure the legitimacy, safety and efficiency of its operations, ProCredit Bank sets and implements the following:

- Risk management policies and procedures
- Procedures establishing the criteria for appointing administrators and preparing the respective
- Documentation for Bank of Albania approval
- Procedures for ensuring legal compliance with external regulatory frameworks

Our salary policy is in line with the salary policy of the ProCredit group, and defines the role of ProCredit Holding in relation to internal policy with regard to remuneration.

The purpose of this policy is to define the principles upon which the salary structure is based, but reference is also made to changes in positions, organisational structures and training needs for each salary group.
The group salary structure is a core component of the group's HR policy. It aims at providing a simple and coherent framework of salary ranges for all key positions at ProCredit institutions and clear career development paths in one concise document. Each position at the Bank appears in the salary grid with a salary range consisting of a certain number of salary steps that can be used depending on the performance of each employee.

The principle of a fixed (non-variable) salary was strongly reaffirmed as a key element of the group salary policy. Not only have performance-based bonuses been abolished, but additional financial benefits, such as a 13th or 14th month of pay, allowances of any type, vouchers, holiday money, etc., are also not practised within the group beyond what is legally required. This is to ensure a stable form of remuneration for our employees over the long term, rather than a highly unpredictable package that can be modified (downward) during difficult times.

Each position is also situated relative to all the other positions, reflecting their different degrees of complexity and contribution to the Bank's development. The number of different positions in the salary grid is intentionally limited to reflect the relatively flat hierarchical organisation of the banks. The mere existence of this concise salary framework illustrates clearly the identity of ProCredit banks as coherent entities sharing a common vision embracing all their employees under the same shared "roof" of principles.

Salary reviews are conducted annually for all employees and, based on the assessment of each employee, the HR committee decides whether or not a salary increase should be offered.

The HR committee guides the development of human resources through discussion of and decision-making on strategic issues which are usually proposed by the Human Resources unit, Executive Board members, and members of the committee, as well as proposals that may come from the managers of the business units or departments/units at Head Office. The Human Resources committee meets once per month.

Independent Auditor's Report and Financial Statements

ProCredit Bank Sh.a.

Independent Auditor's Report and
International Financial Reporting Standards

Financial Statements
for the year ended 31 December 2021

Contents

INDEPENDENT AUDITOR'S REPORT 28
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 31
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 32
STATEMENT OF CHANGES IN EQUITY 33
STATEMENT OF CASH FLOWS 34
1. Introduction 35
2. Significant accounting policies 35
3. Critical accounting estimates and judgments in applying accounting policies 46
4. Adoption of new and revised International Financial Reporting Standards (IFRSs) 48
5. Financial risk management 49
6. Management of capital 63
7. Fair values of financial instruments 65
8. Presentation of Financial Instruments by Measurement Category 67
9. Net interest income 68
10. Loss allowance 68
11. Net fee and commission income 68
12. Net other operating result 69
13. Administrative Expenses 69
14. Personnel expenses 69
15. Income tax 70
16. Cash and balances with Central Bank 70
17. Loans and advances to financial institutions 71
18. Loans and advances to customers 72
19. Investment securities measured at amortised cost 83
20. Other assets 84
21. Investment property 85
22. Property, plant and equipment 86
23. Intangible assets 87
24. Liabilities to banks 87
25. Liabilities to customers 87
26. Other borrowed funds 88
27. Subordinated debt 88
28. Other liabilities 88
29. Share capital and legal reserves 89
30. Commitments and contingencies 89
31. Related party transactions 91
32. Events after the reporting date 92

Deloitte.

Deloitte Audit Albania Shpk
Rruga e Kavajës, Ish parku i mallrave, Kompleksi Delijorgji, Godina L, Kati 1, 2 dhe 3, Tiranë, Shqipëri
Tel: +355 4 45 17 920
Fax: +355 4 45 17 990
www.deloitte.com/al

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of ProCredit Bank Sha

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report prepared by management in accordance with Article 53 of Law no. 9662, dated 18 December 2006 «On Banks in the Republic of Albania», amended and the information included in the Performance Activity Report and Internal Management Report, prepared by the Management in accordance with Articles 17 and 19 of Law no. 25/2018 dated May 10, 2018 "On accounting and financial statements", but does not include the financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditors' report.

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

Other information (continued)

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Deloitte Audit Albania Shpk

Rruga e Kavajës, Ish parku i mallrave, Kompleksi Delijorgji, Godina L, Kati 1, 2 dhe 3,

Tirana, Albania,

Unique identification number of the subject UINS: L41709002H

DELOITTE ALBANIA SH.PK.
NUIS : J62329003N
Kompleksi Delijorgji, God L, Kati 1.2, 3 Tiranë

Statutory Auditor

Engagement Partner

Enida Cara

Tirana, Albania

May 23, 2022

	Note	In Lek'000 31 December		In EUR'000 31 December	
		2021	2020	2021	2020
Interest income	9	1,145,847	1,086,984	9,358	8,782
Interest expense	9	(305,602)	(297,878)	(2,496)	(2,407)
Net interest income		**840,245**	**789,106**	**6,863**	**6,376**
Loss reversal/(allowance)	10	181,007	(279,383)	1,478	(2,257)
Net interest income after loss reversal/(allowance)		**1,021,252**	**509,723**	**8,341**	**4,118**
Fee and commission income	11	271,363	240,628	2,216	1,944
Fee and commission expense	11	(136,826)	(113,776)	(1,117)	(919)
Net fee and commission income		**134,537**	**126,852**	**1,099**	**1,025**
Result from foreign exchange transactions		99,634	85,484	814	691
Net other operating result	12	(96,555)	(107,755)	(789)	(871)
Operating Income		**1,158,868**	**614,304**	**9,465**	**4,963**
Personnel expense	14	(314,515)	(256,986)	(2,569)	(2,076)
Administrative expenses	13	(767,901)	(755,768)	(6,272)	(6,106)
Profit/(Loss) before tax		**76,452**	**(398,451)**	**624**	**(3,219)**
Income tax (expense)	15	(1,574)	-	(13)	-
Profit/(Loss) for the year		**74,878**	**(398,451)**	**612**	**(3,219)**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities measured at FVOCI		-	25,808	-	209
Deferred tax	15	-	(4,101)	-	(33)
Total comprehensive profit / (loss) for the year		**74,878**	**(376,744)**	**612**	**(3,044)**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1).

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 35 to 92

	Note	In Lek'000 31 December 2021	2020	In EUR'000 31 December 2021	2020
Assets					
Cash and balances with Central Bank	16	5,016,078	4,515,050	41,538	36,500
Loans and advances to financial institutions	17	3,347,754	3,056,956	27,722	24,713
Loans and advances to customers	18	27,219,941	25,298,202	225,405	204,513
Investment securities at amortized cost (AC)	19	1,700,596	1,293,444	14,083	10,456
Corporate income tax receivable		-	57,635	-	466
Other assets	20	265,731	570,779	2,200	4,614
Investment property	21	2,398	2,787	20	23
Property, plant and equipment	22	656,666	640,989	5,438	5,182
Intangible assets	23	7,720	11,004	64	89
Total assets		**38,216,884**	**35,446,846**	**316,470**	**286,555**
Liabilities					
Liabilities to banks	24	3,305,236	4,075,540	27,370	32,947
Liabilities to customers	25	26,428,254	23,922,043	218,849	193,388
Other borrowed funds	26	4,090,065	3,111,646	33,869	25,155
Corporate income tax liability	15	1,330	-	11	-
Other liabilities	28	226,649	218,767	1,877	1,769
Other provisions	28	45,184	52,511	374	425
Subordinated debt	27	857,898	878,950	7,104	7,105
Total liabilities		**34,954,616**	**32,259,457**	**289,455**	**260,788**
Shareholders' equity					
Share capital	29	4,995,616	4,995,616	41,368	40,385
Accumulated deficit	29	(2,441,458)	(2,516,337)	(20,226)	(20,341)
Legal reserves	29	708,110	708,110	5,864	5,724
Currency translation reserve		-	-	9	(2)
Total shareholders' equity		**3,262,268**	**3,187,389**	**27,015**	**25,767**
Total liabilities and shareholders' equity		**38,216,884**	**35,446,846**	**316,470**	**286,555**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1)

These financial statements have been approved by Management on 23 May 2022 and signed on their behalf by:

Diamant Ibrahimi
Member of the Management Board

Mirsad Haliti
Member of the Management Board

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 35 to 92.

In Lek'000	Share Capital	Legal Reserves	Revaluation Reserve/ (Deficit)	Retained Earnings/ Accumulat-ed deficit	Total
Balance at 1 January 2020	**4,377,075**	**708,110**	**(21,707)**	**(2,117,886)**	**2,945,593**
Loss for the year	-	-	-	(398,451)	(398,451)
Other comprehensive income					
Investment Securities at FVOCI	-	-	*25,808*	-	*25,808*
Deferred tax	-	-	*(4,101)*	-	*(4,101)*
Total comprehensive loss	**-**	**-**	**21,707**	**(398,451)**	**(376,744)**
Increase in Paid Up Capital (Note 29)	618,541	-	-	-	618,541
Balance at 31 December 2020	**4,995,616**	**708,110**	**-**	**(2,516,337)**	**3,187,389**
Balance at 1 January 2021	**4,995,616**	**708,110**	**-**	**(2,516,337)**	**3,187,389**
Profit for the year	-	-	-	74,878	74,878
Other comprehensive income					
Investment Securities at FVOCI	-	-	-	-	-
Deferred tax	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**74,878**	**74,878**
Increase in Paid Capital	-	-	-	-	-
Balance at 31 December 2021	**4,995,616**	**708,110**	**-**	**(2,441,458)**	**3,262,268**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 35 to 92.

	Note	In Lek'000 31 December 2021	In Lek'000 31 December 2020	In EUR'000 31 December 2021	In EUR'000 31 December 2020
Cash flows from operating activities					
Profit/Loss before income tax		76,451	(398,452)	624	(3,219)
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property, plant and equipment and investment property	21,22	73,959	86,837	604	702
Amortization of intangible assets	23	3,617	15,313	30	124
Impairment charge for credit losses	18	(181,007)	279,944	(1,478)	2,262
Interest income	9	(1,145,847)	(1,086,984)	(9,358)	(8,782)
Interest expense	9	305,602	297,878	2,496	2,407
Gain/Loss on disposal of assets		(4,377)	6,492	(36)	52
Charge of other provisions		143,685	52,997	1,174	428
		(727,917)	**(745,975)**	**(5,945)**	**(6,027)**
Changes in operating assets and liabilities:					
Loans and advances to financial institutions and compulsory reserve		(283,701)	(187,734)	(2,349)	(1,518)
Loans and advances to customers	18	(1,726,290)	(3,411,390)	(14,295)	(27,578)
Other assets	20	146,582	(107,064)	1,214	(866)
Liabilities to banks	24	(101,430)	648,195	(840)	5,240
Liabilities to customers	25	2,509,021	2,399,243	20,777	19,396
Other liabilities	28	(35,457)	44,696	(294)	361
		(219,192)	**(1,360,029)**	**(1,732)**	**(10,991)**
Interest received		1,135,922	1,081,900	9,406	8,746
Interest paid		(312,598)	(318,745)	(2,589)	(2,577)
Corporate income tax received		57,391	26,625	475	215
Net cash generated from/(used in) operating activities		**661,523**	**(570,249)**	**5,561**	**(4,607)**
Cash flows from investing activities					
Acquisition investment securities measured at AC		(1,700,696)	(1,293,978)	(14,083)	(10,461)
Proceeds from matured Investment securities measured at AC		1,293,444	2,306,219	10,711	18,644
Proceeds from sale of property, plant and equipment		49,538	46,220	410	374
Acquisition/ disposal of intangible assets		(334)	5,796	(3)	47
Acquisition of premises and equipment		(84,223)	(98,499)	(697)	(796)
Net cash (used in)/generated from investing activities		**(442,271)**	**965,758**	**(3,662)**	**7,807**
Cash flows from financing activities					
Proceeds from subordinated debt		-	13,510	-	109
Capital Increase		-	618,541	-	5,000
Proceeds from other borrowed funds		4,056,280	1,389,938	33,590	11,236
Repayment from other borrowed funds		(3,763,600)	(1,217,700)	(31,166)	(9,844)
Net cash generated from financing activities		**292,680**	**804,290**	**2,424**	**6,502**
Translation differences		-	-	998	(553)
Increase in cash and cash equivalents		**511,932**	**1,199,799**	**4,322**	**9,150**
Cash and cash equivalents at beginning of the year		**5,488,712**	**4,288,913**	**44,371**	**35,221**
Cash and cash equivalents at end of the year	**16**	**6,000,644**	**5,488,712**	**49,691**	**44,371**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1).

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 35 to 92.

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for ProCredit Bank Sh.a. (the "Bank").

The Bank, originally known as FEFAD Bank, was incorporated and domiciled in Albania since February 1999. The Bank is licensed to operate in retail banking activity in Albania in accordance with Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is a joint stock company limited by shares set up in accordance with Law 9901, dated 14 April 2008 "On entrepreneurs and commercial companies".

As at 31 December 2021 and 2020, the immediate and ultimate parent company of the Bank is ProCredit Holding AG & Co. KGaA holding 100% of the shares.

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

As at 31 December 2021 the Bank was operating from Head Office in Tirana, 1 branch, and 6 Self Service areas (24/7 Zones) located in Tirana, Durres, Korçe, Fier and Shkoder.

Registered address and place of business. The official address of the Bank is Rruga "Dritan Hoxha", 92, H.15, Njesia Administrative Nr.11, Tirana, Albania.

Board of Directors

Board of Directors members as of December 2021 are:

- Eriola Bibolli, Chairwoman of the Board
- Christian Edgardo Dagrosa
- Wolfgang Bertelsmeier
- Jovanka Joleska Popovska
- Jordan Damçevski

Functional and presentation currency. The financial statements are presented in Albanian Lek ("Lek"), which is the Bank's functional currency, currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

Presentation in EUR

In addition to presenting the financial statements in the Bank's functional currency, supplementary information in EUR has been prepared for the convenience of users of the financial statements, translating Lek'000 to EUR'000.

The statement of financial position at 31 December 2021 has been translated at the official rate of BOA as at 31 December 2021 of Lek 120.76 to EUR 1 (2020: 123.70). The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the Lek amounts into EUR at the average exchange rate during the year of EUR 1: Lek 122.44 (2020: EUR 1: Lek 123.77).

The supplementary information in EUR does not form part of the audited financial statements.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2. Significant accounting policies (continued)

Going concern Management prepared these financial statements on a going concern basis. In making, this judgement management considers the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the situation in the financial market on the operations of the Bank.

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Albanian Government authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, salary payments to those terminated employment enforceable by employers etc. The above measures were gradually relaxed during 2020 and 2021. These measures have, among other things, severely restricted economic activity in Albania and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Bank, as well as the Albanian and global economy for an unknown period of time.

Continuity

Since the beginning of the pandemic COVID-19 in Albania the main focus of the bank has been to ensure safe working conditions for our employees and the continuity of business operations. Bank's digital approach to banking operations has enabled us to implement home-office models to protect the health and safety of our clients and employees. The increased demand on working from remote locations (e.g. home office) in line with the safety requirements associated with the outbreak of the COVID-19 pandemic has raised the importance of maintaining a reliable and secure environment for remote access. The secure and reliable of IT infrastructure built in the scope of the banks' data centres and IT systems centralisation project provides a solid basis for an effective home office operational environment. To adopt to the created situation, additional equipment was needed to continue daily business without any interruption. In a very short period of time all staff was equipped with laptops in order to continue working from home.

As a response of the pandemic situation two developments occurred in Albania: Two moratoriums granted by Bank of Albania respectively extension up to 31 May 2020 and thereafter up to 31 August 2020, dated on 17.03.2020 and 28.05.2020 "The postponement of the payment of loan instalments for business entities and individuals". Based in the Civil Code and the regulations of the Bank of Albania, the parties has agreed on the rescheduling of loans to businesses and individuals affected by the pandemic.

Based on the decision of Ministry of Finance, a Sovereign Guarantee Line was issued in favor of each commercial bank from which ProCredit Bank Albania Sha has benefited two guarantee funds. The first guarantee amounts to Lek 400,000 thousand with a full coverage 100% and the second guarantee amounts to Lek 1,000,000 thousand with a coverage of 60%.

Albanian Government offered a guarantee fund to support with credit by banks those companies that have difficulties to pay the monthly salaries to their employees. The Bank has the possibility to largely use this instrument, with a rather positive, flexible and proactive approach. The purpose is that many people benefit from this guarantee, as the credit accorded for this purpose is considered to have practically zero risk, due to the guarantee by the sovereign. Meanwhile, the ample liquidity owned by the banking system, currently provides banks with the possibility to actively participate in the auctions of the Albanian Government securities, by supporting the needs that the Government has in this period, and simultaneously, it may be considered an investment opportunity to the system itself, as lending has experienced difficulties. The Bank relies also on the support from its Group.

The Bank's CAR (capital adequacy ratio) at 31 December 2021 was 14.55% while the required minimum CAR for banks in Albania is 12%. There are no other factors or that may determine that the bank may not be in line with going concern principle. Support from the Group is also available on a need basis.

The Bank has no intention to liquidate or cease its operations during the year 2022. Management expects the Bank to continue to be profitable in the future, and its ability to continue as going concern will not be impaired.

2. Significant accounting policies (continued)

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate 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 financial liability to the gross carrying amount of the financial asset (i.e its amortised cost before any impairment allowance) or to the amortised cost of a financial 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 transaction costs and 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 financial liability.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (AC), net of the ECL provision.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

Fees and commissions

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur. Other fee and commission income which is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

2. Significant accounting policies (continued)
Financial instruments - key measurement terms (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial asset (i.e its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at Amortised cost (''AC'') and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss or gain. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

2. Significant accounting policies (continued)

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical accounting estimates and judgements applied by the Bank in determining the business models for its financial assets

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. Since 2020 the bank reassessed Business Model for Investment securities as Hold to Collect being that the intention of the bank is to hold the asset until its maturity date and to collect contractual cash flow. Reclassification of affected financial assets (from FVOCI to Amortized Cost category) was accounted prospectively and securities were reclassified to amortized cost since from December 31, 2020 (Please see note 19 for details).

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in ECL allowances and interest income, are recognised in profit or loss (within separate line items) and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 5 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 5. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

2. Significant accounting policies (continued)

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part according to delinquency and collateral coverage as regulated with local regulation. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset significant change in interest rate, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for: (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2. Significant accounting policies (continued)

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all vault cash, interbank placements and mandatory reserves deposits with the Bank of Albania (BOA), with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the Central Bank. Mandatory cash balances with the Bank of Albania are carried at AC and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL depending on the results of the business model assessment and SPPI test. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce or eliminate an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss.

An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances applicable to financial assets at amortised cost are determined based on the forward-looking ECL models. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank 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 Bank's intention in respect of recovery of these assets, and are subsequently re measured and accounted for in accordance with the accounting policies for these categories of assets.

2. Significant accounting policies (continued)

***Repossessed collateral* (continued)**

The Bank's repossessed collateral at the reporting date is mainly included in inventories within other assets and it is subsequently measured at the lower between cost, typically determined by execution procedures, and net realisable value, being the fair value of the collateral determined by external independent appraisers that hold a recognised and relevant professional qualification and licence with experience in valuation of similar location and category, less costs to realise the sale. Repossessed collateral that is held for the purpose either by earning rentals or capital appreciation is included in investment property. Movable collateral and immovable collateral with issues related to the legal titles are not recognised as an asset when repossessed. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

Credit related commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both. Investment property includes assets for future use as investment property. Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment. Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

2. Significant accounting policies (continued)

Property, plant, and equipment

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period.

The carrying values of property, plant and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the 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 assets.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

Land is not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property, plant and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Description	Useful life 2021
Buildings	40 years
Business and office equipment	2-10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The rights of use are amortised on a straight-line basis until the end of the lease term.

Property, plant and equipment with useful lives of more than one year which fall under the materiality threshold of Lek 5,000 (2020: Lek 5,000) and, are also not material in aggregate, are expensed in profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in Statement of Profit or Loss.

Intangible assets

Intangible assets primarily include acquired computer software licences capitalised on the basis of costs incurred to acquire and bring to use the specific software. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are entirely comprised of computer software which is amortised using the straight-line method over their estimated useful life of ten years.

Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

2. Significant accounting policies (continued)

Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. Generally, the Bank uses its average interest rate on business loans as the discount rate.

Liabilities to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from extinguishment of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds

Other borrowed funds include loans taken from international financial institutions. Funds borrowed are carried at Amortized Cost.

Subordinated debt

Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at Amortized Cost.

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns.

Taxes other than on income are recorded within administrative and other operating expenses. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

The Bank›s uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest, and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits

The Bank makes only 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. The Bank's contributions to the benefit pension plan are charged to the profit or loss as incurred.

2. Significant accounting policies (continued)

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Legal Reserve

According to law no. 9901 dated 14.4.2008 "On traders and trade companies", article 127, p. 49, point a, "From profit after tax, realized during the previous financial year, deducting expenses, the company must pass to the legal reserve, at least 5 percent of this value, until this reserve is equal to 10 percent of the registered capital of the company, or with a higher value, defined in the statute"

According to Regulation No. 69, dated 18.12.2014, Article 6, p.5 and 6, "Other reserves include general reserves, which are created by the bank in the amount of 1.25% to 2% of the total possible exposures and exposures of the bank weighted by risk. These reserves are created by deducting one-fifth of the profit and are freely used by the bank in order to cover the unidentified risks in its activity and do not reflect the reduction of the value of a certain asset. Banks, in cases when the created reserve fund falls below the required minimum level, is obliged to meet it within a time limit of 2 (two) years.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rates of the Bank of Albania "BOA") at the reporting date.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the BOA, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

3. Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 5. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Bank used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. Several macroeconomic quantities are investigated regarding their potential as a part of the PD model. The time series of macroeconomic factors is taken from the IMF World Economic Outlook Database, specifically for Albania. In particular, at least the following quantities are considered for the specification of the PD models: Growth of the gross domestic product, Percentage change of the inflation, Unemployment rate.

These quantities reflect directly the development of the business cycle and are therefore valid potential inputs for a meaningful PD model. For the estimation of point-in-time LGDs, some additional factors are included, as here not merely the default risk needs to be modelled but also additional influencing macroeconomic factors.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank›s contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both private and business, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 5.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model.

Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets. The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition. The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI. The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

Repossessed collateral. In determining the net realizable value for repossessed collateral that is included in inventories within other assets, the Bank determines the fair value measurement based on reports of external, independent property valuators, having appropriate recognized statutory professional qualifications. Management has reviewed the appraisers' assumptions underlying discounted cash flow models used in the valuation, and confirms that factors such as similar properties and/or similar transactions, the discount rate applied have been appropriately determined based on the inputs and assumptions used and considering the market conditions at the end of the reporting period. Notwithstanding the above, management considers that the valuation of its repossessed collateral is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value even though the latest results have shown insignificant variances between actual proceeds and carrying values.

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

4.1. Initial application of new amendments to the existing standards effective for the current reporting period.

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Bank's accounting policies:

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" -** Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 "Leases" -** Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted),
- **Amendments to IFRS 4 "Insurance Contracts" –** Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank financial statements.

4.2. Standards issued but not yet effective and not early adopted.

At the date of authorisation of these financial statements, the following new standard and amendments to existing standards were in issue, but not yet effective:

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 issued on 25 June 2020 and amendments to IFRS 17 "Initial Application of IFRS 17 and IFRS 9" issued on 9 December 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations" -** Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 16 "Leases" -** Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual reporting periods beginning on or after 1 April 2021. Earlier application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.)
- **Amendments to IAS 1 "Presentation of Financial Statements" -** Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements" -** Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income Taxes" -** Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),

4. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)
4.2 Standards issued but not yet effective and not early adopted (continued)

- **Amendments to IAS 16 "Property, Plant and Equipment" -** Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -** Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.),

The Bank has elected not to adopt the new standard and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of the standard and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

5. Financial risk management

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Credit risk

The Bank defines credit risk as the risk that the party to a transaction cannot fulfil its contractual obligations, not in full or not in time. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring placements and debt securities into the Bank's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the Credit Risk Department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Management Department.

All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

The following table shows the maximum exposure to credit risk:

	31 December 2021	31 December 2020
Cash and balances with Central Bank	5,016,078	4,515,050
Loans and advances to banks and other financial institutions	3,347,754	3,056,956
Loans and advances to customers:		
Business Trade	10,277,223	10,765,721
Business Production	7,660,869	7,010,999
Business Agriculture	994,492	756,545
Business Transport	494,474	448,768
Business Other	5,757,356	4,798,438
Private Housing	1,856,121	1,381,809
Private Investment	109,486	79,818
Private Other	69,920	56,104
	27,219,941	**25,298,202**

5. Financial risk management (continued)
Credit risk (continued)

	31 December 2021	31 December 2020
Investment securities measured at AC	1,700,596	1,293,444
Other financial assets	210,251	369,857
Total	**1,910,847**	**1,663,301**
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	2,527,860	2,311,471
Financial guarantees and Letters of Credit	1,314,558	1,287,942
Total	**3,842,418**	**3,599,413**

Off balance sheet	31 December 2021	31 December 2020
Credit commitments	2,527,860	2,311,471
Financial guarantees	1,314,558	1,178,939
Letters of Credit	-	109,003
Provisions recognised as liabilities	(20,349)	(31,032)
Total	**3,822,069**	**3,568,381**

Credit default risk from customers' credit exposures

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for all individually significant credit exposures. The starting point of the analysis is the information collected from the client, ranging from audited financial statements to self-declarations. The key criteria for credit exposure decisions are based on the financial situation of the client; in particular for individually insignificant credit exposures, supplemented by a review of liquid funds and the assessment of the creditworthiness of the client. Finally, the collateral requirements are generally higher for individually significant credit exposures. As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the turnover of the client with the Group, the lower collateral requirements will be.

The decision-making process ensures that all credit decisions on individually significant exposures are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that our lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the above lending principles, the results of follow up on early warning indicators and appropriate monitoring, in particular of our individually significant credit exposures. This is a crucial element of our strategy for managing arrears in the current difficult economic environment that is affecting our clients.

The Bank rigorously follows up on the non-repayment of our credit exposures, which typically allows for swift identification of any increased potential for default on a credit exposure. The Bank applies strict rules regarding credit exposures for which there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank`s recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background. The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate that our loan portfolio exhibits.

The quality of the loan portfolio is monitored on an ongoing basis. The bank uses internal early warning indicators to identify any potential increase in credit risk. A significant increase in credit risk is detected typically during the client's financial analysis/ monitoring or by detecting any ad-hoc events that indicate increase in risk. Both trigger an update of client's Risk Classification. On the other hand, past due information is considered since the stages comprise all the exposures exceeding 30 days past due.

5. Financial risk management (continued)

This approach implies the comprehensive analysis of various information sources including comprehensive analysis of borrowers' financial stance, past due information, data on the restructuring events and future macroeconomic prospects.

Expected credit loss (ECL) measurement. ECL is an unbiased and probability-weighted amount calculated as the difference between the cash flows due to the bank in accordance with contractual terms of a financial instrument and the cash flows that the bank expects to receive. ECL is based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL is calculated using the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and is discounted to a present value.

The model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments. As such, the model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event. Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information. This model outlines three stages described below based on the development of credit risk since initial recognition.

Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition or that have low credit risk at the reporting date. For these exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date.

Stage 2 comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. For these assets, lifetime expected losses are recognised. Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. The Company's management estimates that 12-month and lifetime CCFs are materially the same. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year. The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes.

5. Financial risk management (continued)
Expected credit loss (ECL) measurement. (continued)

The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk. The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Group's Credit Risk Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

A significant increase in credit risk has occurred when at least one of the following events was detected:

- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days
- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- standard or watch restructuring event(s)
- multiple restructurings

After the SICR is identified the lifetime expected credit loss must be determined.

Risk Classification System The risk classification system is based on many years of experience in working with small and medium clients and broad knowledge of the reasons for default. The risk classification system consists of the qualitative and quantitative characteristics of each client, which are weighted according to their importance and impact on the business activity, and consequently the performance of the credit exposure. As a result, a final score is calculated for each client ranging from 1 to 8, where 6 and 7 are considered as SICR events and 8 implies the highest degree of risk.

The Bank defines credit default risk from customers' credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customers' credit exposures is based on a thorough implementation of the bank's lending principles:

- intensive analysis of the debt capacity of the Bank's clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of over indebting our clients
- building a personal and long-term relationship with the client and maintaining regular contact
- close monitoring of loan repayments and early warning indicators
- practising tight arrears management exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- Rigorous application of the "dual control principle".

The Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of at least three months. In addition, to the fulfilling criteria, the bank performs a full financial monitoring of previously defaulted exposures before reclassifying them as not defaulted. The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1).

5. Financial risk management (continued)

If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the bank monitors whether that indicator continues to exist or has changed. The bank discusses on monthly basis, through the asset quality indicators committee, all cases identified with SICR and based on the monitoring feedback and existence of indicators decides the proper classification of the exposures.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Calculation of Expected Credit Loss:

The following parameters are used in the calculation of expected credit loss:

Exposure at default (EAD)

EAD is the expected exposure amount at the time of default; it is derived from the currently outstanding receivable from the customer adjusting for future changes under the applicable contractual conditions. Thus, the EAD consists of the expected exposures (including credit risk from off-balance sheet business) at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

Probability of default (PD)

The probability of a loan defaulting within a certain period of time is derived from historical default events. These historical default data includes the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The Bank uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. The last step in the process would be the calculation of lifetime PDs on exposure level.

Loss Given Default (LGD)

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. In order to establish the ECL parameters, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors.

5. Financial risk management (continued)

Calculation of Expected Credit Loss (continued)

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Bank's Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. The Bank manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

Foreign currency risk specifies the risk of negative effects on an institution's financial results caused by changes in exchange rates, which are: 1. Currency risk of the Bank's income statement; 2. Currency risk of the capital adequacy; 3. Foreign currency investment risk (not applicable for the Bank).

As a matter of principle, the Bank does not engage in proprietary trading and does not enter speculative positions on foreign exchange markets for the purpose of generating potential additional income. Therefore, the Bank is a non-trading book credit institution. The Bank aims to close currency positions and ensures that an open currency position remains within the conservative limits at all times.

Foreign Currency Risk Management Policy and Central Bank Regulation on Open Currency Position Risk Management, limit currency risk by setting limits and reporting triggers for open currency positions in relation to the regulatory capital. Changes to the limits and reporting triggers in the policy can only be made by the PC Group ALCO or Group Risk Management Committee. Compliance to approved OCP limits are regularly reviewed and monitored by Risk Management Department. Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in Lek):

	2021	**2020**
USD	106.54	100.84
EUR	120.76	123.70
GBP	143.95	137.93
CHF	116.82	114.46
CNY	16.81	15.42

5. Financial risk management (continued)

Foreign currency risk (continued)

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2021 and 2020, translated into Lek'000.

31 December 2021	**Lek**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,944,230	2,762,552	309,296	-	**5,016,078**
Loans and advances to banks	-	2,935,196	403,855	8,703	**3,347,754**
Securities measured at amortised cost (AC)	1,700,596	-	-	-	**1,700,596**
Loans and advances to customers	12,636,191	13,970,318	613,432	-	**27,219,941**
Other financial assets	88,039	104,041	18,171	-	**210,251**
Total Financial Assets	**16,369,056**	**19,772,107**	**1,344,754**	**8,703**	**37,494,622**
Open forward position (asset)	-	253,596	8,442	-	**262,038**
Liabilities					
Liabilities to banks	275,391	3,029,845	-	-	**3,305,236**
Liabilities to customers	12,556,419	12,512,153	1,351,361	8,321	**26,428,254**
Other borrowed funds	400,007	3,690,058	-	-	**4,090,065**
Other financial liabilities	72,425	104,875	5,668	22	**182,990**
Subordinated debt	-	857,898	-	-	**857,898**
Total Financial Liabilities	**13,304,242**	**20,194,829**	**1,357,029**	**8,343**	**34,864,443**
Open forward position (liability)	**253,710**	**8,453**	**-**	**-**	**262,163**
Net on-balance sheet currency position	**2,811,104**	**(177,579)**	**(3,833)**	**360**	**2,630,054**
Off-balance sheet commitments and guarantees	**1,522,508**	**2,171,790**	**148,120**	**-**	**3,842,418**
Credit commitments	812,450	1,641,514	73,896	-	**2,527,860**
Off balance sheet - letters of credit	-	-	-	-	**-**
Off balance sheet - bank guarantees	710,058	530,276	74,224	-	**1,314,558**
Total credit related commitments	**1,522,508**	**2,171,790**	**148,120**	**-**	**3,842,418**

31 December 2020	**Lek**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,775,406	2,573,932	165,712	-	**4,515,050**
Loans and advances to banks	299,984	2,090,898	662,431	3,643	**3,056,956**
Investment securities measured at FVOCI	1,293,444	-	-	-	**1,293,444**
Loans and advances to customers	11,697,107	12,971,834	629,261	-	**25,298,202**
Other financial assets	117,558	223,411	28,888	-	**369,857**
Total Financial Assets	**15,183,499**	**17,860,075**	**1,486,292**	**3,643**	**34,533,509**
Open forward position (asset)	-	18,555	5,564	-	**24,119**
Liabilities					
Liabilities to banks	100,141	3,975,399	-	-	**4,075,540**
Liabilities to customers	12,174,542	10,245,387	1,500,287	1,827	**23,922,043**
Other borrowed funds	200,006	2,911,640	-	-	**3,111,646**
Other financial liabilities	101,403	85,927	4,580	6	**191,916**
Subordinated debt	-	878,950	-	-	**878,950**
Total Financial Liabilities	**12,576,092**	**18,097,303**	**1,504,867**	**1,833**	**32,180,095**
Open forward position (liability)	18,578	5,567	-	-	**24,145**
Net on-balance sheet currency position	**2,588,829**	**(224,240)**	**(13,011)**	**1,810**	**2,353,388**
Off-balance sheet commitments and guarantees	**1,515,485**	**1,931,465**	**152,463**	**-**	**3,599,413**
Credit commitments	1,118,333	1,106,798	86,340	-	2,311,471
Off balance sheet - letters of credit	-	109,003	-	-	109,003
Off balance sheet - bank guarantees	397,152	715,664	66,123	-	1,178,939
Total credit related commitments	**1,515,485**	**1,931,465**	**152,463**	**-**	**3,599,413**

5. Financial risk management (continued)

Foreign currency risk (continued)

The Bank's sensitivity analysis takes into consideration the 10-year historical exchange rates movements of the Lek against the foreign currencies, EUR and USD. Following the calculated historical shocks and related financial impact based on the Bank's open currency positions, the sensitivity towards exchange rates risk is measured and reported to key management personnel and included in the ICAAP calculations. This analyse is based on statistical methods and it represents management's assessment of effects from reasonably possible changes in foreign exchange rates.

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank, given its present currency risk exposure. The calculation of such impact based on 31 December 2021 data and 31 December 2020 (under a standard scenario) is presented below:

			Effect on profit or loss	
Currency	**Historical shocks 2021**	**Historical shocks 2020**	**31 December 2021**	**31 December 2020**
EUR	+1.93%	+0.29%	(1,687)	(274)
USD	+4.68%	+28.40%	(246)	(4,172)
Total			**(1,933)**	**(4,446)**

Exchange rate shock is determined as follows:

- For a period of ten years, the daily exchange rates for each currency pair are listed. The currency pairs are the bank's functional currency (Lek) against each of the foreign currencies of the bank's OCPs. The year-on-year change (i.e. holding period = one year) is identified as the movement, expressed as a percentage, of the exchange rate of each of the foreign currencies.
- The profit or loss impact for each of the bank's OCPs is calculated for each simultaneous year-on-year change (by multiplying for each currency the OCP by each year-on-year exchange rate change).
- The simultaneous historical exchange rate movements of all currencies leading to the 1st percentile largest aggregated loss impact are taken.

Economic capital necessary to cover currency risk is obtained by multiplying each OCP by its respective exchange rate shock and these results are aggregated, i.e. positive and negative impacts are netted.

Interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the Bank's economic value and its interest earnings and eventually capital. Changes in market interest rates can affect the Bank in a direct way, for balance sheet positions indexed to market reference rates (i.e. customer loans with variable interest rates, indexed to 12M TRIBOR, 12M T-Bills rates, 12M EURIBOR and 12M LIBOR, or EUR borrowed funds indexed to 6M and 12M EURIBOR). In addition, other positions might be affected accordingly, because of a pricing decision, in order to reflect the market changes.

The Bank does not aim to earn profits through speculation in the interest rate market. Rather, it seeks to ensure that its interest rate structure is sufficiently balanced across all maturities by staying within the limits defined in the Interest Rate Risk Management Policy and Central Bank Instruction on Interest Rate Risk Management. The Bank achieves this by matching repricing profiles between assets and liabilities.

The bank monitors interest rate changes throughout two dimensions:

1) Economic perspective – the risk of interest rate changes resulting in a loss in the present value of all interest rate sensitive positions. The economic value risk is measured by the economic value impact which represents the change in present value of the Bank's future cash flows which would result in the case of an interest rate shock. The economic value risk has a longer term perspective and therefore identifies the

risk arising from long term re-pricing mismatches. The size of the economic value impact depends on the repricing structure and characteristics of interest sensitive assets and liabilities, as well as on the assumed interest rate change.

2) Earnings perspective – the risk of interest rate changes resulting in a loss in the profit and loss account in the balance sheet within a defined timeframe. Interest earnings risk considers how changes in interest rate could affect the Bank's profitability, over a defined time horizon, given its current re-pricing structure. The interest earnings risk has a short term perspective (up to one year) and identifies the risk arising from shorter term re-pricing mismatches. It is measured by the interest earnings impact2, which displays the change in the net interest income over the one year time horizon, factoring in also the effect of fair-value change of financial instruments.

5. Financial risk management (continued)

Interest rate risk (continued)

Both analyses are performed using an instant shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts, which is done for all interest rate risk relevant currencies. Only by assessing both perspectives (i.e. the long and the short term) simultaneously, it is possible to determine the full scope of the interest rate risk exposure. Moreover, besides the EUR or USD interest rates frequently used as benchmarks, other market-relevant interest rates are also used.

Considering Lek, EUR and USD denominated asset and liability structures as at 31 December 2021 and 2020, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

Lek Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	810,632
Balances with Central Banks		743,793	-	-	-	-	-	743,793	389,805
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	653,317	1,052,330	-	-	-	-	1,705,647	333,701
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to custom-ers	Fixed	633,686	2,026,606	2,990,580	576,288	392,108	75,701	6,694,970	-
	Var.	883,719	2,932,303	3,146,354	-	-	-	6,962,375	-
Off balance sheet items		32,653	214,665	563,268	-	-	-	810,586	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**2,947,168**	**6,225,905**	**6,700,202**	**576,288**	**392,108**	**75,701**	**16,917,372**	**1,534,138**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		16,250	-	-	-	-	-	16,250	4,612,147
Deposits from customers		678,364	1,821,392	3,601,435	1,483,312	341,863	27,467	7,953,833	-
Borrowings and subordinated debt	Fixed	570,426	105,304	-	-	-	-	675,731	-
	Var.		-	-	-	-	-		-
Off balance sheet items		253,710	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,518,750**	**1,926,696**	**3,601,435**	**1,483,312**	**341,863**	**27,467**	**8,645,813**	**4,612,147**
IR sensitivity gap- open position		**1,428,418**	**4,299,209**	**3,098,767**	**-907,024**	**50,244**	**48,234**	**8,271,559**	

5. Financial risk management (continued)

Interest rate risk (continued)

EUR Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	570,306
Balances with Central Banks		2,192,246	-	-	-	-	-	2,192,246	-
Current accounts with banks		2,775,760	-	-	-	-	-	2,775,760	168,135
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to custom-ers	Fixed	562,796	1,575,552	2,464,306	617,806	312,348	17,724	5,550,532	-
	Var.	1,265,813	3,646,451	4,681,974	-	-	-	9,594,238	-
Off balance sheet items		282,699	500,205	1,104,350	-	-	-	1,887,255	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**7,079,314**	**5,722,208**	**8,250,630**	**617,806**	**312,348**	**17,724**	**22,000,030**	**738,441**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		14,839	-	-	-	-	-	14,839	6,756,037
Deposits from customers		382,790	1,151,096	3,151,978	944,897	47,707	83,719	5,762,187	-
Borrowings and subordinated debt	Fixed	-	335,213	2,735,963	1,046,087	-	-	4,117,262	-
	Var.	1,212,776	2,612,689	-	-	-	-	3,825,465	-
Off balance sheet items		8,453							
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,618,858**	**4,098,998**	**5,887,941**	**1,990,983**	**47,707**	**83,719**	**13,719,754**	**6,756,037**
IR sensitivity gap- open position		**5,460,456**	**1,623,210**	**2,362,688**	**(1,373,178)**	**264,641**	**(65,995)**	**8,280,277**	

USD Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	136,956
Balances with Central Banks		145,493	-	-	-	-	-	145,493	26,848
Current accounts with banks		403,854	-	-	-	-	-	403,854	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	12,752	57,287	280,284	554	-	-	350,877	-
	Var.	16,906	66,149	219,873	-	-	-	302,929	-
Off balance sheet items		8,522	24,288	49,234	-	-	-	82,044	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**587,528**	**147,725**	**549,391**	**554**	**-**	**-**	**1,285,198**	**163,803**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		-	-	-	-	-	-	-	359,904
Deposits from customers		86,091	172,128	436,043	239,466	60,259	-	993,987	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		-							
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**86,091**	**172,128**	**436,043**	**239,466**	**60,259**	**-**	**993,987**	**359,904**
IR sensitivity gap- open position		**501,436**	**(24,403)**	**113,348**	**(238,912)**	**(60,259)**	**-**	**291,210**	

5. Financial risk management (continued)

Interest rate risk (continued)

Lek Interest Sensitivity Gap At 31 December 2020		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	758,432
Balances with Central Banks		698,660	-	-	-	-	-	698,660	318,315
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	339,947	959,519	-	-	-	-	1,299,466	(6,022)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to custom-ers	Fixed	464,832	1,727,683	2,951,958	576,051	258,074	23,890	6,002,489	-
	Var.	613,926	2,822,983	3,260,494	-	-	-	6,697,402	-
Off balance sheet items		90,784	348,987	668,959	-	-	-	1,108,730	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**2,208,148**	**5,859,173**	**6,881,411**	**576,051**	**258,074**	**23,890**	**15,806,747**	**1,070,724**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		21,559	-	-	-	-	-	21,559	3,695,141
Deposits from customers		634,230	1,642,257	4,289,009	1,544,751	388,279	52,849	8,551,376	
Borrowings and subordinated debt	Fixed	300,177	-	-	-	-	-	300,177	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		18,578							
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**974,545**	**1,642,257**	**4,289,009**	**1,544,751**	**388,279**	**52,849**	**8,873,113**	**3,695,141**
IR sensitivity gap- open position		**1,428,418**	**1,233,604**	**4,216,916**	**2,592,402**	**(968,700)**	**(130,205)**	**(28,959)**	**6,933,635**

EUR Interest Sensitivity Gap At 31 December 2020		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	436,380
Balances with Central Banks		2,137,552	-	-	-	-	-	2,137,552	-
Current accounts with banks		1,815,064	-	-	-	-	-	1,815,064	254,734
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to custom-ers	Fixed	566,456	1,523,042	2,621,807	496,060	311,188	22,936	5,541,490	-
	Var.	1,133,296	3,240,745	4,116,011	-	-	-	8,490,052	-
Off balance sheet items		112,629	356,439	647,151	-	-	-	1,116,219	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**5,764,997**	**5,120,226**	**7,384,969**	**496,060**	**311,188**	**22,936**	**19,100,377**	**691,113**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		-	-	-	-	-	-	-	4,655,100
Deposits from customers		481,740	1,172,844	2,959,036	798,806	112,595	80,943	5,605,965	
Borrowings and subordinated debt	Fixed	715,008	390,448	2,569,034	1,382,896	1,071,554	-	6,128,940	-
	Var.	161,437	1,951,369	-	-	-	-	2,112,806	-
Off balance sheet items		5,567							
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,363,751**	**3,514,661**	**5,528,071**	**2,181,702**	**1,184,149**	**80,943**	**13,847,711**	**4,655,100**
IR sensitivity gap- open position		**4,401,246**	**1,605,565**	**1,856,899**	**(1,685,643)**	**(872,961)**	**(58,007)**	**5,252,666**	

5. Financial risk management (continued)

Interest rate risk (continued)

USD Interest Sensitivity Gap At 31 December 2020		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	22,709
Balances with Central Banks		136,992	-	-	-	-	-	136,992	14,079
Current accounts with banks		422,434	-	-	-	-	-	422,434	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	30,067	52,108	262,669	4,493	465	-	349,802	-
	Var.	15,936	78,491	235,349	-	-	-	329,776	-
Off balance sheet items		12,904	15,900	62,489	-	-	-	91,292	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**618,332**	**146,499**	**560,506**	**4,493**	**465**	**-**	**1,330,297**	**36,787**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		-	-	-	-	-	-	-	519,795
Deposits from customers		83,241	183,942	329,084	205,098	179,522	-	980,887	
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		-							
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**83,241**	**183,942**	**329,084**	**205,098**	**179,522**	**-**	**980,887**	**519,795**
IR sensitivity gap- open position		**535,091**	**(37,443)**	**231,422**	**(200,605)**	**(179,057)**	**-**	**349,409**	

The interest rate gaps at the year end 2020 were recalculated using the model updated in 2021, where bank has applied a different methodology for quantification of interest rate risk. The analysis and calculations are done to quantify the effect of the interest rates movements on economic value and interest earnings over a 12-month time horizon, and consequently to analyse and mitigate related risks, by improving the repricing structure, when this is possible. Considering EUR and USD denominated asset and liability structures as at 31 December 2021 and 2020, and assuming a parallel shift of interest rate for +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, based on interest earnings effects, where negative figures represent possible losses and decrease of net equity.

Estimated economic value effect	**2021**		**2020**	
	200 bp	200 bp	200 bp	100 bp
Change Lek market rates	(50,120)	22,141	(19,430)	(4,757)
Change EUR market rates	(6,200)	(53,416)	72,033	(127,592)
Change USD market rates	11,146	(13,731)	14,447	(17,163)
Total effect (netted)	(45,174)	(45,005)	67,049	(149,513)
As % of capital	-1.10%	-1.09%	1.66%	-3.70%

Liquidity risk

Liquidity risk is the risk that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The Bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in view of potential extraordinary circumstances. Liquidity risk management includes as well the longer-term perspective (structural), defined as funding risk. Funding risk is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates. It can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate liquidity and funding risk, the Bank diversifies funding sources and manages the assets with liquidity caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls.

5. Financial risk management (continued)

The Bank aims to keep the expected cumulative maturity gap positive, for at least a period of 90 days (survival period at 90 days, being a limit for the standard scenario and trigger for extended stress scenario, as defined in the Liquidity Management Policy). As for December 2021, the survival period of the Bank for all currencies in total is calculated above 360 days.

The table below presents financial assets and liabilities by remaining contractual maturities at the reporting date, or by expected maturities.

31 December 2021	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,016,078	-	-	-	-	**5,016,078**
Investment securities measured at AC	-	1,701,230	-	-	-	**1,701,230**
Loans and advances to customers	852,756	1,407,928	6,228,391	9,963,182	8,767,684	**27,219,941**
Other financial assets	210,251	-	-	-	-	**210,251**
Total	**6,079,085**	**3,109,158**	**6,228,391**	**9,963,182**	**8,767,684**	**34,147,500**
Liabilities						
Liabilities to banks	111,236	537,280	966,080	1,690,640	-	**3,305,236**
Customer accounts – Private	9,209,627	57,658	1,444,837	344,327	-	**11,056,450**
Customer accounts – Business	8,083,940	914,843	3,888,560	2,484,461	-	**15,371,804**
Other borrowed funds	1,621,912	-	-	2,468,153	-	**4,090,065**
Subordinated debt	-	12,578	-	-	845,320	**857,898**
Gross loan commitments	2,527,860	-	-	-	-	**2,527,860**
Financial guarantees	1,314,558	-	-	-	-	**1,314,558**
Other financial liabilities	182,990	-				**182,990**
Total potential future payments for financial obligations	23,052,124	1,522,360	6,299,477	6,987,581	845,320	**38,706,861**
Liquidity gap arising from financial instruments	**(16,973,039)**	**1,586,798**	**(71,086)**	**2,975,601**	**7,922,364**	**(4,559,361)**

31 December 2020	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	4,515,050	-	-	-	-	**4,515,050**
Loans and advances to customers	440,631	2,334,256	4,885,113	9,783,389	7,854,813	**25,298,202**
Investment securities measured at AC	-	1,293,978	-	-	-	**1,293,978**
Other financial assets	369,857	-	-	-	-	**369,857**
Total	**5,325,538**	**3,628,234**	**4,885,113**	**9,783,389**	**7,854,813**	**31,477,087**
Liabilities						
Liabilities to banks	735,639	556,650	1,669,950	1,113,300	-	**4,075,539**
Customer accounts – Business	6,625,997	2,099,020	3,672,724	2,545,058	-	**14,942,799**
Customer accounts – Private	7,186,630	233,968	1,011,097	547,548	-	**8,979,243**
Other borrowed funds	200,006	-	-	2,923,878	-	**3,123,884**
Subordinated debt	-	13,050	-	-	865,900	**878,950**
Gross loan commitments	2,311,471	-	-	-	-	**2,311,471**
Financial guarantees	1,287,942	-	-	-	-	**1,287,942**
Other financial liabilities	191,916	-	-	-	-	**191,916**
Total potential future payments for financial obligations	**18,539,601**	**2,902,688**	**6,353,771**	**7,129,784**	**865,900**	**35,791,744**
Liquidity gap arising from financial instruments	**(13,214,063)**	**725,546**	**(1,468,658)**	**2,653,605**	**6,988,913**	**(4,314,657)**

5. Financial risk management (continued)

In order to measure short-term liquidity risk, the Bank uses the contractual liquidity data as a basis and adjustments are made wherever it is not sensible to apply the contractual maturity from a liquidity risk perspective. The adjustments are done when calculating the sufficient liquidity indicator (SLI), survival period and stress tests as defined in the Liquidity Risk Management Model (LRM Model), approved and applicable at the Group level. The adjustments are made by applying certain assumptions, which transform the contractual maturities of highly liquid assets, inflows and liabilities due in the tested period into maturities which are assumed to depict their behaviour in case if the defined scenarios materialize. Assumptions have been chosen with the aim of being prudent based on historical analyses, regulations, theoretical foundations, operational requirements and risk managers and expert opinions.

Following the above, i.e. the current and saving deposits are classified as due on demand and maturing within one month, based on their contractual maturity. As a result, the contractual liquidity gap of up to twelve months results negative. However, the possibility that such large amounts of customer deposits, amounting to approx. 50% of total deposits, will leave the Bank within 1 month or even 12 months period is very unlikely and not historically evidenced. Following the LRM Model, current and savings accounts are distributed in different time buckets, by applying different outflows rates, as resulted from the related historical analyses over a period of more than 10 years. with the applicable 1 month outflow rates vary from 9.5%, to 12.0% and 15.0%, respectively for standard and stress scenarios, being higher than any historical evidence. In any event that these are not sufficient, or increased concentration risk is assessed, the Bank has to adjust / increase these rates accordingly and still is required to comply with the related limits.

In addition, the Bank is maintaining a portfolio of highly marketable financial assets (available for sale financial assets) that can easily be liquidated or used under a repo mechanism, as a protection against any unforeseen interruption to cash flows. From a liquidity management point of view, these assets fall under the first maturity bucket and provide therefore a buffer in case of unexpected outflows. On the other side, the Bank has established and maintains relationships with local and international counterparts (core being ProCredit Holding and ProCredit Bank Germany), as well as with different IFI-s, in relation to any needs for raising funds in the Money Market or having access to longer term funding alternatives, based on careful liquidity projections performed on monthly bases. It should be emphasised that the deposit strategy remains the main focus of the Bank, aiming to provide stable and diversified funding from the targeted core clientele, in order to cover the expected outflows as well as to support the growth. The Liquidity Risk Management is based on and supported by a well-designed risk management framework, consisting of the Liquidity Strategy, Liquidity Risk Management Policy (including LRM Model) and Procedures, Liquidity Contingency Plan, Recovery Plan, specialized responsible structures and steering committees (ALCO and RMCO).

The Management of the Bank is monitoring the liquidity risk management and all related liquidity ratios and indicators against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the short-term liquidity gap is being managed accordingly.

6. Management of capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' presented on the face of the balance sheet, are:

- to comply with the capital requirements set by the Bank of Albania;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by Bank of Albania, for supervisory purposes.

The required information is filed with Bank of Albania on a quarterly basis. Bank of Albania requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of 1 billion Lek and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel II ratio') at or above minimum of 12%.

Regulatory capital is the Bank's capital, calculated pursuant to the requirements of the Bank of Albania regulations to cover credit risk, market risk and operational risk. The Bank's regulatory capital is divided into two tiers. The Bank calculates the regulatory capital as the sum of Tier 1 capital and Tier 2 capital, considering the deductions pursuant to the requirements prescribed in the Bank of Albania regulations. The Banks calculates risk-weighted exposures as the sum of the following elements:

a. Items of exposures and possible exposures weighted for the credit, or counterparty risk;

b. Capital requirements for market risks; and

c. Capital requirement for operational risk.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2021 and 2020. During these two years, the Bank complied with all of the externally imposed capital requirements. Should be noted that the following amounts are based on Bank of Albania regulations and do not necessarily agree to the amounts shown in these financial statements.

Tier 1 capital	**2021**	**2020**
Share capital	4,995,616	4,995,616
Statutory reserve	708,110	708,110
Translation exposure	-	-
Statutory accumulated (losses)/profits	(2,387,008)	(2,387,008)
Statutory intangible assets	(7,625)	(10,908)
Total qualifying Tier 1 capital	**3,309,093**	**3,305,810**
Tier 2 capital		
Subordinated liability	858,560	879,637
Other deductions	-	-
Total qualifying Tier 2 capital	**858,560**	**879,637**
Total regulatory capital	**4,167,653**	**4,184,447**
Total risk-weighted assets	**28,646,609**	**26,237,409**
Risk-weighted assets:		
On-balance sheet	25,263,933	22,831,843
Off-balance sheet	1,494,018	1,413,634
Risk assets for operational risk	1,888,658	1,899,335
Risk assets for market risk	-	92,597
Total risk-weighted assets	**28,646,609**	**26,237,409**
Tier I capital adequacy ratio	**11.55%**	**12.60%**
Capital adequacy ratio	**14.55%**	**15.95%**

6. Management of capital (continued)

Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel III). The capital management of the Bank is governed by the Bank Policy on ICAAP. Regulatory and Basel III capital ratios, the Tier 1 leverage ratio ICAAP triggers and limit are monitored on a monthly basis by the Bank's ALCO/Risk Management Committee as well as reported to the respective Group's structures.

ICAAP – Economic perspective

In addition to the above mentioned, which aims to ensure that the Bank can meet all regulatory and external obligations and resulting internal requirements on an ongoing basis in the medium term (normative perspective), the Bank complements its ICAAP with an economic perspective, as well.

The economic perspective mainly serves to safeguard the bank's economic substance in the long term. The assessment is expected to cover the full universe of risks that may have a material impact on the capital position from an economic perspective. Own processes and methodologies are used to identify and quantify risks, and to set aside internal capital for expected losses (insofar as these are not considered in the determination of internal capital) and unexpected losses.

The methods used to calculate the amount of economic capital required to cover the different risks to which the bank is exposed are based on statistical models, to the extent that appropriate models are available.

For each risk category, the economic capital required to cover the current level of risk arising in a normal operating environment (standard scenario) is calculated on a monthly basis. Economic capital requirements are then compared with the resources available to cover risk.

The following concepts are used to calculate potential losses in the different risk categories:

- Credit risk (customers): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution are calculated. The historical loss rates in different arrears categories are applied to the loan portfolio to calculate potential loan losses and therefore economic capital required. For standard scenario, loss rates based on 99% confidence level are applied and for stress scenario based on a 99.9% confidence level.
- Counterparty risk (issuer risk included): To quantify the amount of economic capital that is needed to cover the counterparty risk (including issuer risk) the standard measure of Value at Risk (VaR) is used, to express the degree of credit risk inherent in the portfolios. To calculate the VaR corresponding to counterparty risk (including issuer risk) the adjusted Gordy Model is used, which is given as the sum of credit risk contributions of individual exposures in the portfolio. The model is extended through the implementation of a maturity adjustment factor, which is adopted for internal computations. Notwithstanding The VaR is separated into expected loss and unexpected loss, the full VaR value is taken into account in the quantification of counterparty risk.
- Foreign currency risk: The calculation of economic capital required to cover currency risk is based on the open currency position of the bank and an exchange rate shock in the respective currency. The simultaneous historical year-to-year exchange rate movements of all currencies leading to the 1st percentile largest aggregated loss impact (in absolute value) represent the economic capital necessary to cover currency risk.
- Interest rate risk: The calculation of economic capital necessary to cover interest rate risk is based on the interest rate risk exposure (repricing gap) in EUR, USD and the local currency of the bank (Lek), and interest rate shocks in the respective currencies. This is captured by the economic value impact indicator and calculated using instantaneous parallel shifts of yield curves. Two interest rate shock scenarios (parallel up and parallel down) are determined per currency:

  a) For EUR and USD a shock of 200 basis points up and down is used for the yield curves that reflect the interest rate environment on international markets.

  b) For the local currency as well as for EUR and USD: a parallel up and down shock, that reflects the local specifics of the market interest rates is determined, while ensuring that a minimum shock of ±200 basis points is applied (daily interest rates for each risk-free yield curve over more than ten years are used to derive the interest rate shock). Economic capital necessary to cover interest rate risk is obtained as the absolute sum of the currency specific net present value impacts, while taking into account only the adverse scenario.

6. Management of capital (continued)

- Operational risk: The value used for the internal capital adequacy calculation equals the capital charge under the Standardised Approach. Under this approach, the business activities of the Bank are subdivided into standardised business lines. The capital requirement for a given business line corresponds to a fixed percentage ("beta factor") of a relevant indicator. This indicator is calculated for each business line individually and equals the average over three years' annual gross income. The beta factor for each business line has been defined and serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line. The capital requirement for operational risk corresponds to the sum of capital requirements in the individual business lines.

7. Fair values of financial instruments

The 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 other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 inputs:

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the bank can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Inputs:

Other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs:

Unobservable inputs for the asset or liability. If observable market rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates are determined taking into consideration the cost of funds depending on currencies and maturities plus a risk margin. Internal rates are regularly compared to those applied for third party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining 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.

7. Fair values of financial instruments (continued)

(b) Financial instruments not measured at fair value for which fair value is disclosed

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

				Fair value hierarchy		
As of 31 December 2021	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	5,016,078	5,016,078	-	5,016,078	-
Loans and advances to banks	AC	3,347,754	3,347,754	-	3,347,754	-
Loans and advances to customers	AC	27,219,941	26,441,199	-	-	26,441,199
Investment securities	AC	1,700,596	1,701,699	-	1,701,699	-
Other assets (shares)	FVOCI	192	192	-	192	-
Other financial assets	AC	210,251	210,251	-	210,251	-
Total		**37,494,812**	**36,717,173**	**-**	**10,275,974**	**26,441,199**
Financial Liabilities						
Liabilities to banks	AC	3,305,236	3,305,236	-	3,305,236	-
Liabilities to Customers	AC	26,428,254	26,553,396	-	16,711,834	9,841,562
Borrowings	AC	4,090,065	4,049,339	-	2,283,470	1,765,869
Subordinated debts	AC	857,898	857,898	-	857,898	-
Other financial liabilities	AC	182,990	182,990	-	182,990	-
Total		**34,864,443**	**34,948,859**	**-**	**23,341,428**	**11,607,431**

				Fair value hierarchy		
As of 31 December 2020	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	4,515,050	4,515,050	-	4,515,050	-
Loans and advances to banks	AC	3,056,956	3,056,956	-	3,056,956	-
Loans and advances to customers	AC	25,298,202	25,282,076	-	-	25,282,076
Investment securities	AC	1,293,444	1,293,444	-	1,293,444	-
Other assets (shares)	FVOCI	196	196	-	196	-
Other financial assets	AC	369,857	369,857	-	369,857	-
Total		**34,533,705**	**34,517,579**	**-**	**9,235,503**	**25,282,076**
Financial Liabilities						
Liabilities to banks	AC	4,075,540	4,075,540	-	4,075,540	-
Liabilities to Customers	AC	23,922,043	24,042,835	-	13,190,227	10,852,608
Borrowings	AC	3,111,646	3,111,646	-	3,111,646	-
Subordinated debts	AC	878,950	878,950	-	878,950	-
Other financial liabilities	AC	191,916	191,916	-	191,916	-
Total		**32,180,095**	**32,300,887**	**-**	**21,448,279**	**10,852,608**

*Categories: AC - Amortised cost; FVOCI - fair value through other comprehensive income

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

8. Presentation of Financial Instruments by Measurement Category

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

As at 31 December 2021	**FVOCI**	**AC**	**Total**
Cash and current accounts with banks	-	5,016,078	5,016,078
Loans and advances to banks	-	3,347,754	3,347,754
Other financial assets	-	210,251	210,251
Loans to Business	-	**25,184,414**	**25,184,414**
Loans to customers	-	18,671,131	18,671,131
Overdrafts	-	6,513,283	6,513,283
Credit cards	-	-	-
Loans to Private	-	**2,035,527**	**2,035,527**
Loans to customers	-	2,006,804	2,006,804
Overdrafts	-	26,743	26,743
Credit Cards	-	1,980	1,980
Total loans and advances to customers	-	**27,219,941**	**27,219,941**
Investment securities	-	**1,700,596**	**1,700,596**
Albanian Government Treasury Bills	-	1,700,596	1,700,596
Albanian Government Bonds	-	-	-
Total Financial Assets	-	**37,494,620**	**37,494,620**

As at 31 December 2020	**FVOCI**	**AC**	**Total**
Cash and current accounts with banks	-	4,515,050	4,515,050
Loans and advances to banks	-	3,056,956	3,056,956
Other financial assets	-	369,857	369,857
Loans to Business	-	**23,780,471**	**23,780,471**
Loans to customers	-	17,817,120	17,817,120
Overdrafts	-	5,963,351	5,963,351
Credit cards	-	-	-
Loans to Private	-	**1,517,731**	**1,517,731**
Loans to customers	-	1,490,956	1,490,956
Overdrafts	-	26,628	26,628
Credit Cards	-	147	147
Total loans and advances to customers	-	**25,298,202**	**25,298,202**
Investment securities	-	**1,293,444**	**1,293,444**
Albanian Government Treasury Bills	-	1,293,444	1,293,444
Albanian Government Bonds	-	-	-
Total Financial Assets	-	**34,533,509**	**34,533,509**

9. Net interest income

	2021	2020
Interest income		
Loans and advances to customers	1,100,342	1,042,557
Investment securities measured at AC	33,470	44,130
Loans and advances to financial institutions	4,440	(4,423)
Other interest income	7,595	4,719
Total interest income (effective interest method)	**1,145,847**	**1,086,984**
Interest expense		
Liabilities to customers	157,332	164,359
Interest expenses on subordinated debts	37,719	39,166
Interest expenses on financial institutions	79,815	79,239
Other	30,737	15,114
Total interest expense	**305,602**	**297,878**
Net interest income	**840,244**	**789,106**

Interest income and expenses are recognised in Statement of profit or loss on an accrual basis. Net interest Income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in the net interest income, but rather under ''Loss allowance''.

10. Loss allowance

	2021	2020
Change in loss allowances	123,160	(330,165)
Recovery of written-off loans	57,847	50,782
Total	**181,007**	**(279,383)**

11. Net fee and commission income

Fees and commissions income were comprised as follows:

Fee and commission income from:	**2021**	**2020**
Payment services	88,614	74,485
Debit/credit cards	27,788	21,442
Account maintenance	136,421	139,654
Letters of credit and guarantees	17,898	1,316
Others	642	3,731
Total	**271,363**	**240,628**
Fee and commission expenses from:		
Payment services	41,536	29,454
Debit/credit cards	60,433	63,173
Account maintenance	5,664	3,610
Letters of credit and guarantees	28,468	17,189
Others	725	350
Total	**136,826**	**113,776**
Net fee and commission income	**134,537**	**126,852**

Fee and commission income and expenses are recognised on the basis of the agreed amount payable. Income and expenses are generally recognised at a point in time.

12. Net other operating result

Other operating income from:	2021	2020
Reversal of provision	5,508	2,649
Reimbursement of expenses	700	5,090
Sale of repossessed properties	63,179	9,605
Sale of property, plant and equipment	11,063	1,669
Rental of investment properties	1,679	463
Others	45,437	17,909
Total	**127,567**	**37,385**
Other operating expenses for:		
Deposit insurance	48,626	48,482
Disposal of property, plant and equipment	6,686	5,039
Impairment of repossessed properties	120,332	29,785
Impairment on claims to customers	19,314	15,372
Others	29,164	46,462
Total	**224,122**	**145,140**
Net other operating result	**(96,555)**	**(107,755)**

13. Administrative Expenses

	2021	2020
IT, Maintenance and repairs	353,726	330,464
Consultancy, legal fees and other services	116,169	129,831
Depreciation of property, plant and equipment	73,570	86,448
Security services	65,855	52,073
Telephone and electricity	39,693	39,378
Training	27,452	18,241
Marketing, advertising and representation	19,689	21,282
Lease expenses	19,513	14,822
Transport	12,157	11,767
Insurance	9,499	5,986
Office supplies	7,389	5,693
Amortization of intangible assets	3,617	15,313
Other expenses	19,572	24,470
Total	**767,901**	**755,768**

Other expenses are comprised mainly from municipal tax expenses Lek 6,560 (2020: Lek 7,415), withholding tax expenses Lek 4,781 (2020: Lek 5,379) and membership fee expenses Lek 1,445 (2020: Lek 1,316).

14. Personnel expenses

Personnel expenses were comprised as follows:

	2021	2020
Salary expenses	283,886	229,396
Social insurance	21,427	19,078
Public defined contribution plan	9,183	8,176
Other	19	335
Total	**314,515**	**256,986**

At 31 December 2021 the Bank had 124 employees (31 December 2020: 121 employees).

15. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2021 and 2020 is presented as it follows:

	2021	2020
Current tax	1,574	4,101
Deferred tax (benefit)/expense	-	(4,101)
Income tax expense	**1,574**	**-**

Current income tax is calculated based on the income tax regulations applicable in Albania, using tax rates enacted at the reporting date. The tax rate on corporate income is 15% (2020: 15%).

(b) Amounts recognised in OCI

	2021			2020		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Securities FVOCI	-	-	-	25,808	(4,101)	21,707
Total	**-**	**-**	**-**	**25,808**	**(4,101)**	**21,707**

(c) Reconciliation of the effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	2021	2020
Profit / (Loss) before tax	76,451	(398,452)
Theoretical charge /(credit) tax calculated at 15% (2020:15%)	11,468	(59,768)
Non-deductible expenses	31,223	31,616
Derecognition of deferred tax assets	-	4,101
Unrecognised tax loss carry forwards	-	28,152
Utilisation of previously unrecognised tax loss carry forwards	(41,117)	-
Income tax expense	**1,574**	**4,101**

	2021	2020
Total amount of tax loss carry forwards at the beginning of the period	274,114	151,260
Tax loss (utilised)/ realized during the year	(274,114)	187,678
Tax loss carry forwards expiring by the end of year	-	(64,824)
Total amount of tax loss carry forward at the end of the year	**-**	**274,114**

16. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2021	2020
Cash on hand	1,517,893	1,217,520
Current account with Central Bank of Albania	1,132,535	1,214,236
	2,650,428	2,431,756
Compulsory reserve with Central Bank of Albania	2,370,685	2,086,976
Allowance for impairment losses	(5,035)	(3,681)
Total	**5,016,078**	**4,515,050**

Compulsory reserves with Central Bank represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 7.5% of balances of deposits in Lek up to one-year maturity and 5% of balances of deposits in Lek that do not exceed two-year maturity. Whereas, the mandatory reserve for deposits in foreign currencies (mainly USD and EUR) is calculated as 12.5% of balances of deposits up to two-year maturity in case the share of foreign deposits over total deposits does not exceed 50%. In case its share is above 50% then the mandatory reserves is calculated as 20% of balances of deposits that exceed the predefined limit.

16. Cash and balances with Central Bank (continued)

Cash and cash equivalents at 31 December 2021 and 2020 are presented below:

	2021	2020
Cash and balances with Central bank	2,650,428	2,431,756
Loans and advances to financial institutions with maturities of three months or less	3,347,754	3,056,956
Monetary values in transit	2,462	-
Total	**6,000,644**	**5,488,712**

Cash and balances with central banks

The credit quality of cash and balances with central banks is provided below. Central Bank of Albania is not rated. However, the Albanian Government is rated as B+ by S&P and by Moody's B1, with stable outlook.

31 December 2021	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		1,132,535	-	1,132,535
- Compulsory reserve		2,370,685	-	2,370,685
- Government securities		-	1,347,367	1,347,367
Total cash and balances with central banks		**3,503,220**	**1,347,367**	**4,850,587**

31 December 2020	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		1,214,236	-	1,214,236
- Compulsory reserve		2,086,976	-	2,086,976
- Government securities		-	897,322	897,322
Total cash and balances with central banks		**3,301,212**	**897,322**	**4,198,534**

17. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2021	2020
Deposits with non-resident banks with original maturities of three months or less	3,347,754	3,056,956
Total	**3,347,754**	**3,056,956**

Interbank exposures are closely monitored on a daily basis by Risk Management Department and Treasury Unit. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Management Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

18. Loans and advances to customers

Loans and advances consisted of the following:

	2021	2020
Loans to customers	21,671,477	20,508,491
Overdrafts	6,623,787	6,094,659
Credit Cards	2,108	160
Accrued interest	112,206	102,281
	28,409,578	**26,705,591**
Credit loss allowance	(1,189,637)	(1,407,389)
	27,219,941	**25,298,202**

Movements in the allowance for credit losses on loans and advances to customers are as follows:

	2021	2020
At 1 January	1,407,389	1,280,635
Credit loss allowance for the year	(89,070)	317,770
Loans written off	(115,465)	(211,561)
Translation impact	(13,216)	7,234
Total	**1,189,637**	**1,407,389**

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

	2021	2020
Loans in Lek	1.10% to 11.14%	2.00% to 9.00%
Loans in Euro	1.00% to 8.00%	1.40% to 8.00%
Loans in USD	3.70% to 3.70%	3.50% to 4.00%

Loans and advances to customers and related impairment allowance for each of the Bank's internal days past due categories is presented as follows:

	31 December 2021		31 December 2020	
	Loans and advances	ECL	Loans and advances	ECL
Stage 1 and 2				
Arrears 0-7 days	26,976,920	(563,378)	24,973,650	(635,430)
Arrears 8-30 days	305,381	(8,102)	181,603	(11,590)
Arrears 31-90 days	86,362	(4,646)	21,447	(3,428)
Stage 3	1,040,916	(613,510)	1,528,891	(756,941)
	28,409,578	**(1,189,637)**	**26,705,591**	**(1,407,389)**

Loans and advances to customers and impairment grouped by type of customer is presented as follows.

31 December 2021	***Business***	***Private***	***Total***
Total gross amount	26,232,080	2,177,498	28,409,578
Credit loss allowance (individual and collective)	(1,047,666)	(141,971)	(1,189,637)
Net carrying amount	**25,184,414**	**2,035,527**	**27,219,941**

31 December 2020	***Business***	***Private***	***Total***
Total gross amount	25,027,885	1,677,706	26,705,591
Credit loss allowance (individual and collective)	(1,247,414)	(159,975)	(1,407,389)
Net carrying amount	**23,780,471**	**1,517,731**	**25,298,202**

18. Loans and advances to customers (continued)

Loans to customers by credit risk stages are presented below:

31 December 2021	**Business**	**Private**
Stage 1	23,943,961	1,937,800
Stage 2 (SICR)	1,334,408	152,494
Stage 3 (Default)	953,711	87,204
Gross	**26,232,080**	**2,177,498**
Less: credit loss allowance	(1,047,666)	(141,971)
Net carrying amount	**25,184,414**	**2,035,527**

31 December 2020	**Business**	**Private**
Stage 1	22,154,158	1,384,936
Stage 2 (SICR)	1,461,313	176,293
Stage 3 (Default)	1,412,414	116,477
Gross	**25,027,885**	**1,677,706**
Less: credit loss allowance	(1,247,414)	(159,975)
Net carrying amount	**23,780,471**	**1,517,731**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2021 and 31 December 2020 are disclosed in the table below:

	31 December 2021			**31 December 2020**		
	Gross carrying amount	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Business						
Loans	19,620,333	(949,202)	18,671,131	18,952,706	(1,135,586)	17,817,120
Overdrafts	6,611,747	(98,464)	6,513,283	6,075,179	(111,828)	5,963,351
Private						
Loans	2,147,583	(140,779)	2,006,805	1,649,656	(158,700)	1,490,956
Overdrafts	27,807	(1,064)	26,743	27,890	(1,262)	26,628
Credit Cards	2,108	(128)	1,980	160	(13)	147
Total loans and advances to customers at AC	**28,409,578**	**(1,189,637)**	**27,219,941**	**26,705,591**	**(1,407,390)**	**25,298,202**

18. Loans and advances to customers (continued)

The following table discloses the changes in the gross carrying and credit loss allowance amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	**23,539,094**	**1,637,606**	**1,494,165**	**34,726**	**26,705,590**
New financial assets originated	16,490,977	429,286	62,775	-	16,983,038
Modification of contractual cash flows of financial as-sets	(539)	106	(288)	-	(722)
Derecognitions	(8,051,908)	(619,893)	(318,879)	(21,949)	(9,012,629)
Write-offs	-	-	(103,549)	(11,916)	(115,465)
Changes in interest accrual	7,519	(5,957)	31,816	1,369	34,747
Changes in the principal and disbursement fee amount	(5,094,920)	(523,980)	(277,055)	(255)	(5,896,211)
Transfers to Stage 1	(1,130,523)	1,126,527	3,996	-	-
Transfers to Stage 2	411,747	(624,317)	212,570	-	-
Transfers to Stage 3	6,083	45,101	(51,184)	-	-
Foreign exchange and other movements	(295,769)	22,423	(14,750)	(675)	(288,771)
Gross outstanding amount as of 31 December 2021	**25,881,761**	**1,486,901**	**1,039,616**	**1,300**	**28,409,578**

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	**(420,824)**	**(229,624)**	**(752,517)**	**(4,423)**	**(1,407,389)**
New financial assets originated	(279,421)	(93,949)	(25,592)	-	(398,962)
Release due to derecognition	51,353	53,047	150,516	-	254,916
Transfers to Stage 1	40,510	(40,202)	(308)	-	-
Transfers to Stage 2	(14,386)	39,435	(25,049)	-	-
Transfers to Stage 3	(475)	(6,904)	7,379	-	-
Increase in PD/LGD/EaD	(103,740)	(103,615)	(263,186)	(8,397)	(478,939)
Decrease in PD/LGD/EaD	421,834	104,356	185,801	65	712,056
Usage of allowance	-	-	103,549	11,916	115,465
Foreign exchange and other movements	3,474	3,006	6,589	146	13,216
Loss allowances as of 31 December 2021	**(301,677)**	**(274,449)**	**(612,818)**	**(693)**	**(1,189,637)**

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	20,224,390	1,800,025	1,379,479	34,122	23,438,015
New financial assets originated	14,760,070	547,686	473,128	-	15,780,884
Modification of contractual cash flows of financial as-sets	(130)	(495)	(17,816)	-	(18,441)
Derecognitions	(7,371,345)	(593,591)	(542,199)	-	(8,507,134)
Write-offs	-	-	(211,561)	-	(211,561)
Changes in interest accrual	11,286	7,649	34,402	1,671	55,008
Changes in the principal and disbursement fee amount	(3,253,831)	(540,201)	(184,850)	(1,552)	(3,980,434)
Transfers to Stage 1	(2,731,191)	2,668,849	62,343	-	-
Transfers to Stage 2	1,740,208	(2,301,867)	561,658	-	-
Transfers to Stage 3	33,206	36,377	(69,584)	-	-
Foreign exchange and other movements	126,430	13,174	9,163	485	149,253
Gross outstanding amount as of 31 December 2020	**23,539,094**	**1,637,606**	**1,494,165**	**34,726**	**26,705,590**

18. Loans and advances to customers (continued)

Loss allowance loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January	(217,245)	(225,051)	(793,745)	(2,429)	(1,238,471)
New financial assets originated	(197,878)	(75,657)	(201,234)	-	(474,770)
Release due to derecognition	43,693	69,132	243,044	-	355,869
Transfers to Stage 1	68,597	(63,365)	(5,232)	-	-
Transfers to Stage 2	(63,165)	135,626	(72,461)	-	-
Transfers to Stage 3	(1,702)	(6,915)	8,617	-	-
Increase in PD/LGD/EaD	(199,770)	(235,285)	(366,810)	(2,739)	(804,604)
Decrease in PD/LGD/EaD	147,954	174,001	201,155	745	523,854
Usage of allowance	-	-	211,561	-	211,561
Foreign exchange and other movements	(1,307)	(2,110)	22,588	-	19,172
Loss allowances as of 31 December 2020	**(420,824)**	**(229,624)**	**(752,517)**	**(4,423)**	**(1,407,389)**

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans. The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2021:

31 December 2021	**Stage 1 (12 months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Business				-	
Performing	16,971,776	46,441	-	-	17,018,217
Performing Loan Portfolio (LP) with Early Warnings Indicators (EWI)	6,827,437	15,492	-	-	6,842,929
Underperforming	144,747	1,272,475	-	-	1,417,223
Default	-	-	952,412	1,300	953,712
Gross carrying amount	**23,943,961**	**1,334,408**	**952,412**	**1,300**	**26,232,080**
Expected Credit Loss	(240,555)	(253,300)	(553,117)	(693)	(1,047,666)
Carrying amount	**23,703,405**	**1,081,108**	**399,294**	**607**	**25,184,414**
Private					
Performing	1,675,276	77,784	-	-	1,753,060
Performing LP with EWI	244,449	26,424	-	-	270,873
Underperforming	18,076	48,286	-	-	66,362
Default	-	-	87,204	-	87,204
Gross carrying amount	**1,937,800**	**152,494**	**87,204**	**-**	**2,177,498**
Expected Credit Loss	(61,122)	(21,149)	(59,700)	-	(141,971)
Carrying amount	**1,876,679**	**131,344**	**27,504**	**-**	**2,035,527**

18. Loans and advances to customers (continued)

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

31 December 2020	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business				-	
Performing	16,685,590	189,845	-	-	16,875,435
Performing Loan Portfolio (LP) with Early Warnings Indicators (EWI)	5,273,529	54,197	-	-	5,327,726
Underperforming	195,039	1,217,271	-	-	1,412,310
Default	-	-	1,377,688	34,726	1,412,414
Gross carrying amount	**22,154,158**	**1,461,313**	**1,377,688**	**34,726**	**25,027,885**
Expected Credit Loss	(353,405)	(213,010)	(676,575)	(4,423)	(1,247,414)
Carrying amount	**21,800,753**	**1,248,303**	**701,113**	**30,302**	**23,780,471**
Private					
Performing	1,129,893	89,716	-	-	1,219,609
Performing LP with EWI	217,990	39,259	-	-	257,249
Underperforming	37,053	47,318	-	-	84,371
Default	-	-	116,477	-	116,477
Gross carrying amount	**1,384,936**	**176,293**	**116,477**	**-**	**1,677,706**
Expected Credit Loss	(67,419)	(16,614)	(75,942)	-	(159,975)
Carrying amount	**1,317,517**	**159,679**	**40,535**	**-**	**1,517,731**

Analysis by credit quality of loans outstanding at 31 December 2021 is as follows:

	2021		
	Private	**Business**	**Total**
Stage 1 and Stage 2			
0 days past due	2,055,676	24,315,066	**26,370,742**
1 to 30 days past due	33,592	935,853	**969,445**
31 to 90 days past due	1,026	27,450	**28,476**
Total Stage 1 and Stage 2 impaired loans	**2,090,294**	**25,278,369**	**27,368,662**
Stage 3 collectively impaired loans			
0 days past due	31,951	79,363	**111,314**
1 to 30 days past due	31,138	70,884	**102,022**
31 to 90 days past due	3,574	28,170	**31,744**
over 90 days past due	20,540	23,020	**43,560**
Total Stage 3 Collectively impaired loans	**87,204**	**201,436**	**288,640**
Stage 3 Individually impaired loans			
0 days past due	-	136,504	**136,504**
1 to 30 days past due	-	22,360	**22,360**
31 to 90 days past due	-	-	**-**
over 90 days past	-	593,411	**593,411**
Total Stage 3 Individually impaired loans	**-**	**752,275**	**752,275**
Total loans	**2,177,498**	**26,232,080**	**28,409,578**
Expected credit losses	(141,971)	(1,047,666)	**(1,189,637)**
Net loans	**2,035,527**	**25,184,414**	**27,219,941**

18. Loans and advances to customers (continued)

	2020		
	Private	Business	Total
Stage 1 and Stage 2			
0 days past due	1,535,223	23,334,958	**24,870,181**
1 to 30 days past due	17,603	267,469	**285,072**
31 to 90 days past due	8,404	13,044	**21,448**
Total Stage 1 and Stage 2 impaired loans	**1,561,230**	**23,615,471**	**25,176,701**
Stage 3 collectively impaired loans			
0 days past due	41,167	95,516	**136,683**
1 to 30 days past due	1,419	13,356	**14,775**
31 to 90 days past due	2,948	1,862	**4,810**
over 90 days past due	69,267	152,600	**221,867**
Total Stage 3 Collectively impaired loans	**114,801**	**263,334**	**378,135**
Stage 3 Individually impaired loans			
0 days past due	1,675	580,752	**582,427**
1 to 30 days past due	-	-	**-**
31 to 90 days past due	-	72,778	**72,778**
over 90 days past	-	496,876	**496,876**
Total Stage 3 Individually impaired loans	**1,675**	**1,150,406**	**1,152,081**
Total loans	**1,677,706**	**25,027,885**	**26,705,591**
Expected credit losses	(159,975)	(1,247,414)	**(1,407,389)**
Net loans	**1,517,731**	**23,780,471**	**25,298,202**

The following table shows the share of our customer loan portfolio which is subject to moratoriums due to COVID-19 or which has been restructured due to COVID-19:

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as of 31 December 2021	25,881,761	1,486,901	1,039,616	1,300	**28,409,578**
out of which gross carrying amount of loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
out of which gross carrying amount of loans with expired moratorium due to COVID-19:					
moratorium only	3,621,815	246,358	32,258	-	**3,900,431**
moratorium and restructuring	-	72,501	136,826	-	**209,327**

Loss allowance for loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
As of 31 December 2021	(301,678)	(274,449)	(612,817)	(693)	**(1,189,637)**
out of which loss allowances for loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
out of which loss allowances for loans with expired moratorium due to COVID-19:					
moratorium only	(57,193)	(27,173)	(21,141)	-	**(105,507)**
moratorium and restructuring	-	(11,464)	(72,501)	-	**(83,965)**

According to the Bank's policy, only short-term credit exposures may be issued uncollateralized up to a certain amount. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. For an insignificant number of financial assets, the Bank holds cash collateral.

18. Loans and advances to customers (continued)

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

Depending on the type of restructuring (standard, watch or impaired), the credit exposure may be categorized or not in a better category (risk classification) based on the performance of the exposure. The healing period for standard and watch restructured exposures is defined as 24 months and during this period, the exposure should not show additional SICR. If SICR is noted (at least 30 days in arrears) the healing period starts recounting. For impaired restructured loans the reclassification is done in two steps, first 12 months of probation period with no SICR indicators in order to classify it to Watch Restructured exposure and then 24 months of healing period to reclassify it as standard exposure. For any reclassification after the healing period is fulfilled, the bank performs full financial monitoring of the exposure in order to make sure that no signs of further deterioration is expected.

	2021		2020	
	Outstanding balance	**Allowance for impairment**	**Outstanding balance**	**Allowance for impairment**
Business Trade	9,716	(4,106)	329,681	(84,798)
Business Agriculture	4,596	(2,464)	46,116	(15,623)
Business Production	288,273	(75,296)	140,999	(34,598)
Business Other	42,715	(11,781)	279,230	(116,010)
Private Housing	36,077	(10,389)	6,320	(2,726)
Private Investment	141	(76)	-	-
Total	**381,518**	**(104,112)**	**802,346**	**(253,755)**

31 December 2021 **Loans with renegotiated terms**	**Business**	**Private**	**Total**
Carrying amount	345,300	36,218	381,518
Credit loss allowance	(93,647)	(10,465)	(104,112)
Net carrying amount	**251,653**	**25,753**	**277,406**

Loans with renegotiated terms	**2021**
Stage 1	-
Stage 2	322,560
Stage 3	58,957
Total gross amount	**381,518**
Individual impairment	24,862
Collective impairment	356,656
Total gross amount	**381,518**

31 December 2020 **Loans with renegotiated terms**	**Business**	**Private**	**Total**
Carrying amount	796,026	6,320	802,346
Credit loss allowance	(251,029)	(2,726)	(253,755)
Net carrying amount	**544,997**	**3,594**	**548,591**

Loans with renegotiated terms	**2020**
Stage 1	-
Stage 2	334,102
Stage 3	468,244
Total gross amount	**802,346**
Individual impairment	440,514
Collective impairment	361,832
Total gross amount	**802,346**

18. Loans and advances to customers (continued)

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

Credit portfolio risk from customer lending

The granularity of the loan portfolios is a highly effective credit risk mitigating factor. The core business of the banks, lending to small and medium enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to larger credit exposures constitutes a supplementary area of the Bank's business in terms of its overall strategic focus. Most of these clients are enterprises that have been working with the Bank for a number of years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of both the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

An analysis of loans and advances to customers by industry amount of security is provided below:

	2021	%	2020	%
Business Trade	10,535,549	37%	11,153,572	42%
Business Production	8,142,776	29%	7,454,959	28%
Business Other	5,886,424	21%	5,032,999	19%
Business Agriculture	1,025,484	4%	821,631	3%
Business Transport	641,847	2%	564,724	2%
Private Housing	1,987,220	7%	1,531,374	6%
Private Investment	116,469	0%	86,513	0%
Private Other	73,809	0%	59,819	0%
Total	**28,409,578**	**100%**	**26,705,591**	**100%**

	2021		
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	9,918,164	352,202	265,183
Business Agriculture	975,368	32,582	17,534
Business Production	7,038,125	758,620	346,032
Business Transport	335,048	92,842	213,957
Business Other	5,677,255	98,162	111,006
Private Housing	1,761,101	142,262	83,859
Private Investment	111,495	3,376	1,597
Private Other	65,204	6,856	1,748
Total	**25,881,760**	**1,486,902**	**1,040,916**

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	10,188,360	547,835	417,377
Business Agriculture	657,532	60,667	103,432
Business Production	6,359,363	674,635	420,961
Business Transport	317,130	7,358	240,236
Business Other	4,631,772	170,819	230,408
Private Housing	1,268,040	149,508	113,826
Private Investment	72,504	11,703	2,306
Private Other	44,393	15,081	345
Total	**23,539,094**	**1,637,606**	**1,528,891**

18. Loans and advances to customers (continued)

Credit portfolio risk from customer lending (continued)

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2021 along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2021		2020	
	Gross outstanding amount	Fair value of collateral	Gross outstanding amount	Fair value of collateral
Business Trade	265,182	204,371	417,377	241,822
Business Agriculture	17,534	15,701	103,432	34,051
Business Production	346,032	266,071	420,961	154,415
Business Transport	213,957	167,889	240,236	63,897
Business Other	111,006	102,789	230,408	75,599
Private Housing	83,859	46,683	113,826	95,104
Private Other	3,346	-	2,650	-
Total	**1,040,916**	**803,504**	**1,528,891**	**664,888**

The fair value of collaterals disclosed above are based on the determination by local certified evaluators and represents market value realisable by the legal owners of the assets, deducted with the haircuts applied from the internal evaluators based on the bank's internal policies.

The structure of the loan portfolio is regularly reviewed in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas.

The Bank follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the PCH Group Risk Management Committee. No single large credit exposure may exceed 25% of regulatory capital.

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

At 31 December 2021, the ten largest borrowers represent 11.93% (2020: 12.33%) of the total loans.

Individually significant credit exposures are closely monitored by the Credit Risk Committee of the Bank. For such credit exposures, the Bank performs an impairment test if the following default events are identified, i.e:

- An impaired restructuring event
- The bank has initiated court procedures
- Bankruptcy proceedings have been initiated
- Past due days in arrears of 90 days
- A credit fraud event
- A downgrade of risk classification to 8 for all clients with small and medium credit exposures
- Originated Credit Impairment exposures (POCI) at initial recognition
- Other signs of impairment

The impairment test also takes into consideration the realisable net value of collateral held. For the calculation of the individual impairment a discounted cash flow approach is applied.

18. Loans and advances to customers (continued)

The impairment test also takes into consideration the realisable net value of collateral held. For the calculation of the individual impairment a discounted cash flow approach is applied.

For individually significant credit exposures for which the individual impairment calculation showed that present value of expected future cash flows is higher than book, the provisioning for these exposures is defined as an absolute amount of the calculated impairment loss, applying the minimum LLP rate for Stage 1 of the respective exposure class.

While calculating PDs the portfolio is segmented in different buckets as Very Small Exposures (<EUR 50K), SME Exposures (>EUR 50K). The same distribution of exposure size is done for business portfolio and private clients portfolio. For SME Exposures the loss parameters are based on the internal risk classification system for the rated exposures. For Stage 2, the type of restructuring is measured in addition for Private Clients and Very Small Exposures of the exposure.

If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity. The significant increase in credit risk is established based on both quantitative and qualitative information: based on the comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A significant increase in credit risk occurs if the difference in PDs exceeds a pre-defined threshold and the respective asset will be transferred from Stage 1 to Stage 2.

Stage 3 includes a defaulted financial assets and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity.

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

As stated in the IFRS 9 framework, the necessity to estimate lifetime expected losses arises in IFRS 9 Stages II and III; in Stage I, one-year expected losses are used. Details of the different approaches are given below. 12-month expected credit losses are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Lifetime expected credit losses are the present value of losses that arise if a borrower defaults on his obligation throughout the life of the financial instrument. Because expected credit losses consider the amount as well as the timing of payments, a credit loss (i.e., a cash shortfall) arises even if the entity expects to be paid in full but later than when contractually due.

12-month expected credit losses can be viewed as a part of the lifetime expected credit losses that are associated with a potential default during the next twelve months. However, in contrast to lifetime expected credit losses, they do not correspond to expected cash shortfalls over the next twelve months. In particular, no timing information is taken into account.

Impairment and provisioning

The Bank reviews its loan portfolios to assess staging at least on a quarterly basis. 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 Bank.

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.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when it is determined that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Repayments of loans previously written off amounted to Lek 57,847 thousand in 2021 (2020: Lek 50,782 thousand).

18. Loans and advances to customers (continued)

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment (see Note 30).

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups and to affiliates.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements and their financial effect

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over cash and bank guarantees (cash collateral);
- Mortgages over residential properties; and
- Charges over business assets such as premises, inventory and accounts receivable.

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are secured by cash collateral or other types of collateral determined with a decision of credit committees.

In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2021.

	Over-collateralised assets		**Under-collateralised assets**	
31 December 2021	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	6,879,573	8,224,759	18,304,841	13,650,287
Private	675,833	716,521	1,359,694	994,501
	7,555,406	**8,941,280**	**19,664,535**	**14,644,788**

	Over-collateralised assets		**Under-collateralised Assets**	
31 December 2020	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	23,204	28,095	23,715,445	11,869,125
Private	9,448	11,253	1,550,105	1,156,698
	32,652	**39,348**	**25,265,550**	**13,025,823**

The fair value of the collateral is evaluated by the Bank on individual basis. The assessed value represents expected market value. Expected income from collateral liquidation is also taken into account in calculation of individual impairment provisioning.

18. Loans and advances to customers (continued)

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as of 31 December 2021 and 2020. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2021			2020		
	OECD coun-tries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks	-	5,016,078	**5,016,078**	-	4,515,050	**4,515,050**
Loans and advances to banks	3,347,754	-	**3,347,754**	2,525,043	531,940	**3,056,983**
Loans and advances to customers	-	27,219,941	**27,219,941**		25,298,202	**25,298,202**
Debt securities held at Amortized Cost (AC)	-	1,700,596	**1,700,596**	-	1,293,444	**1,293,444**
Other financial assets	-	210,251	**210,251**	-	369,857	**369,857**
Total	**3,347,754**	**34,146,866**	**37,494,620**	**2,525,043**	**32,008,493**	**34,533,536**

Loans and advances to customers based on specific industry sectors at 31 December 2021 and 2020 are presented below:

	31 December			
Industry sector	**2021**	**%**	**2020**	**%**
Trade	11,667,392	43	12,162,265	48
Industry and other production	8,683,484	32	7,806,168	31
Construction	1,980,042	7	1,221,397	5
Transport	498,089	2	453,906	2
Services	1,797,827	7	1,454,511	6
Other	2,593,107	9	2,199,955	9
Total	**27,219,941**	**100**	**25,298,202**	**100**

19. Investment securities measured at amortised cost

Investment securities measured at amortised cost are comprised of treasury bills and bonds presented as follows:

	2021	2020
	Amortised Cost	**Amortised Cost**
Treasury bills at AC	1,701,230	1,293,978
Loss allowance for Investment Securities AC	(634)	(534)
Total	**1,700,596**	**1,293,444**

The movement in investments securities is summarised as follows:

	2021	2020
At 1 January	1,293,444	2,288,243
Additions	1,906,450	1,293,978
Loss allowance for Investment Securities AC	(100)	(534)
Matured	(1,499,198)	(2,288,243)
Total	**1,700,596**	**1,293,444**

19. Investment securities measured at amortised cost (continued)

Treasury bills

Details of treasury bills in ALL issued by the Albanian Government by contractual maturity are presented as follows:

	2021			**2020**		
Issuer	*Maturity*	*Yield*	*Carrying value*	*Maturity*	*Yield*	*Carrying value*
Albanian government	12 muaj	1.40% - 2.20%	1,701,230	12 muaj	1.87% - 2.25%	1,293,978
			1,701,230			**1,293,978**

The table below contains an analysis of the credit risk exposure of debt securities measured at AC at 31 December 2021. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.71% and LGD of 30%.

Movement in impairment for the years ended December 31, 2021 and 2020, charged to profit and loss is as following:

	31-Dec-21	**31-Dec-20**
Opening balances	534	1,535
New financial assets originated	2,875	534
Release due to derecognition	(87)	(1,535)
Increase/Decrease in PD/LGD/EaD	(2,688)	-
Closing balance	**634**	**534**

Exposure to debt securities is regulated by Treasury Policy and Procedures. Investments are allowed only in liquid securities that have minimum credit ratings of (AA-) or in Albanian Government papers, subject to approval from the Group ALCO. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Investments in debt securities are with central banks, or other financial institutions rated as detailed below:

Ratings at 31 December	**2021**	**2020**
Securities at Amortised Cost		
B+	1,701,230	1,293,978
Total	**1,701,230**	**1,293,978**

20. Other assets

	2021	**2020**
Current assets		
Other debtors	210,251	369,857
Other financial assets	**210,251**	**369,857**
Prepaid expenses	25,190	30,449
Inventory	3,404	1,951
Shares	192	196
Non current assets		
Repossessed properties	48,004	175,862
Loss allowance	(21,309)	(7,535)
Total	**265,731**	**570,779**

Movement in loss allowance for the years ended December 31, 2021 and 2020, charged to profit and loss is as following:

	31-Dec-21	**31-Dec-20**
Opening balances	**7,535**	**2,299**
Release due to derecognition	-	-
Increase/Decrease in PD/LGD/EaD	13,774	5,236
Closing balance	**21,309**	**7,535**

20. Other assets (continued)

Other debtors mainly relate to prepayments made to Bailiff Offices that collect funds from loan customers, either for repossession processes which have not yet been concluded, or for processes which have been finalised but the amount is expected to be collected from the debtors and also included sales of properties on condition.

The repossessed properties are collaterals obtained through legal processes and include land, buildings and business premises, which are not used by the Bank for its core operations. Repossessed properties obtained due to legal process are to be sold as soon as practicable. The Bank fully writes down repossessed property within 3 years from initial recognition, based on the management's historical observations and experience on recovery from such assets.

The movement of repossessed assets item during the reporting period is presented as follows:

	2021	2020
Balance at the beginning of the period	175,862	228,859
Disposals during the period	(8,071)	(33,535)
Impairment allowance	(33,754)	(9,973)
Write downs	(86,033)	(9,489)
Balance at the end of the period	**48,004**	**175,862**

21. Investment property

The Bank holds investment property as a consequence of the acquisitions through enforcement of security over loans and advances to customers.

At 1 January 2021	**15,549**
Additions	-
Disposals	-
At 31 December 2021	**15,549**
Accumulated depreciation	(12,762)
Charge for the year	(389)
Accumulated depreciation at time of disposal	-
Impairment	-
At 31 December 2021	**2,398**

At 1 January 2020	**15,549**
Additions	-
Disposals	-
At 31 December 2020	**15,549**
Accumulated depreciation	(12,374)
Charge for the year	(389)
Accumulated depreciation at time of disposal	-
Reversal of Impairment	-
At 31 December 2020	**2,787**

22. Property, plant and equipment

31-December-21	Land and buildings	Business and office equipment	Land and buildings (ROU)	Business and office equipment (ROU)	Total PPE
Total acquisition cost as of 1 January 2021	754,240	672,550	70,546	-	**1,497,336**
Additions	20,974	63,249	43,654	-	**127,877**
Disposals	(33,882)	(126,103)	(1,540)	-	**(161,525)**
Impairment	-	-	-	-	**-**
Total acquisition cost as of 31 December 2021	**741,332**	**609,696**	**112,660**	**-**	**1,463,689**
Accumulated depreciation as of 1 January 2021	242,428	574,158	39,761	-	**856,347**
Charge for the year	15,216	38,229	20,125	-	**73,570**
Disposals	(2,310)	(120,585)	-	-	**(122,895)**
Accumulated depreciation as of 31 December 2021	**255,334**	**491,802**	**59,886**	**-**	**807,022**
Net carrying amount	**485,998**	**117,894**	**52,774**	**-**	**656,666**

31-December-20	Land and buildings	Business and office equipment	Land and buildings (ROU)	Business and office equipment (ROU)	Total PPE
Total acquisition cost as of 1January 2020	750,443	681,812	45,933	-	**1,478,188**
Additions	4,588	22,021	71,889	-	**99,499**
Disposals	(791)	(31,284)	(47,276)	-	**(79,351)**
Impairment	**754,240**	**672,550**	**70,546**	**-**	**1,497,336**
Total acquisition cost as of 31 December 2020					
Accumulated depreciation as of 1 January 2020	227,345	550,023	19,170	-	**796,538**
Charge for the year	15,235	50,250	20,962	-	**86,448**
Disposals	(152)	(26,116)	(371)	-	**(26,638)**
Accumulated depreciation as of 31 December 2020	**242,428**	**574,158**	**39,761**	**-**	**856,347**
Net carrying amount	**511,812**	**98,392**	**30,785**	**-**	**640,989**

23. Intangible assets

At 1 January 2021	**160,098**
Additions	334
Disposals	-
Transfer	-
At 31 December 2021	**160,432**
Accumulated depreciation at 1 January 2021	(149,094)
Charge for the year	(3,617)
Accumulated depreciation at time of disposal	-
Accumulated depreciation at 31 December 2021	(152,771)
Net book value at 31 December 2021	**7,720**
At 1 January 2020	**206,655**
Additions	-
Disposals	(46,557)
Transfer	-
At 31 December 2020	**160,098**
Accumulated depreciation at 1 January 2020	(174,541)
Charge for the year	(15,313)
Accumulated depreciation at time of disposal	40,760
Accumulated depreciation at 31 December 2020	(149,094)
Net book value at 31 December 2020	**11,004**

24. Liabilities to banks

	2021	**2020**
Borrowings from resident banks	275,391	347,541
Borrowings from non-resident banks	3,029,846	3,727,999
Total	**3,305,236**	**4,075,540**

Borrowings from resident banks have maturities as at December 31, 2021 up to 14 days and interest rates of 0.3%, and for maturities 30-90 days 1.15% and 1.20% for balances denominated in Lek.

Borrowings from non-resident banks have maturities as at December 31, 2021 up to 5 years (2020: up to 3 years) and interest rates of 0.6%, 0.649%, 0.67% 1.067%,1.222% and 1.92% for balances denominated in EUR (2020: 0.664%, 0.845%, 1.105% 1.217%,1.44%, 1.59% and 1.92% p.a for EUR).

25. Liabilities to customers

	2021	**2020**
Current accounts		
Foreign currency	7,030,541	5,140,077
Local currency	4,546,305	3,576,821
Savings accounts		
Foreign currency	2,959,091	2,416,333
Local currency	2,013,527	1,968,899
Term deposits		
Foreign currency	3,749,976	4,120,430
Local currency	5,923,495	6,555,707
Other customer account		
Foreign currency	132,227	70,660
Local currency	73,092	73,114
Total	**26,428,254**	**23,922,043**

25. Liabilities to customers (continued)

Savings accounts in Lek (FlexSave) bear interest at 0.8% p.a (2020: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2020: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2020: 0.5%).

Other customer accounts include accounts pledged by customers as cash collateral. They bear interest rates at the similar levels as the term deposits.

The interest rates applied for term deposits as of 31 December 2021 were as follows:

(in %)	12 months	24-36 months
Lek	1.00 - 1.50	1.60 - 2.30
EUR	0.30 - 0.70	0.40 - 0.70
USD	0.50 - 0.80	0.60 - 0.90

31 December 2020

(in %)	12 months	24-36 months
Lek	1.20 - 1.70	1.80 - 2.40
EUR	0.30 - 0.70	0.40 - 0.90
USD	1.0 - 1.20	1.10 - 1.70

26. Other borrowed funds

	2021	2020
ProCredit Holding Ag & Co.KGaA	1,883,463	2,923,878
Financial institutions	2,206,601	187,768
Total	**4,090,065**	**3,111,646**

27. Subordinated debt

	2021	2020
Subordinated Debt		
ProCredit Holding Ag & Co.KGaA	845,320	865,900
Accrued interest	12,578	13,050
Total	**857,898**	**878,950**

On 30 August 2019, the Bank received from ProCredit Holding AG & Co. KGaA a subordinated debt of EUR 7 million (in Lek 854,840,000 translated with the exchange rate 122.12 of date 30 August 2019 as per BoA), bearing a variable interest rate and maturing on 30 August 2029. The interest is payable on a semi-annual basis and the principal is payable on maturity date. In the same period the previous subordinated loan is prepaid.

28. Other liabilities

	2021	2020
Payments in transit	40,930	61,492
Sundry creditors	67,983	78,723
Accrued expenses	21,710	20,483
Lease liabilities	52,367	31,243
Other financial liabilities	**182,990**	**191,941**
Tax and social charges	20,416	18,297
Other provisions	45,184	52,511
Deferred fee income	23,243	8,529
Total	**271,833**	**271,278**

Other provisions relates to provisions for impairment losses for off-balance sheet items and provisions established for legal cases. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The movement in other provisions for the years 2021 and 2020 is presented below:

28. Other liabilities (continued)

	Off-balance sheet items	Legal cases	Other	Total
Balance as at 1 January 2020	**15,895**	**11,726**	**12,402**	**40,023**
Provisions made during the year	31,032			**31,032**
Provisions reversed during the year	(15,895)	(1,487)	(1,161)	**(18,543)**
Balance as at 31 December 2020	**31,032**	**10,239**	**11,241**	**52,512**
Provisions made during the year	13,174	7,317	1,547	**22,039**
Prov. reversed during the year	(23,858)	-	(5,508)	**(29,366)**
Balance as at 31 December 2021	**20,348**	**17,556**	**7,280**	**45,184**

29. Share capital and legal reserves

At 31 December 2021, the authorised and issued share capital of the Bank was comprised of 523,661 (2020: 523,661) shares with a value of Lek 4,995,616 (2020 Lek 4,995,616). The Parent and sole shareholder of the Bank is ProCredit Holding AG& Co. KGaA (the 'Parent'), a holding company based in Frankfurt am Main, Germany

	Number of shares	In Lek'000	%
ProCredit Holding	523,661	4,995,616	100
	523,661	**4,995,616**	**100**

Share Capital	At 1 January 2021	New shares issued	At 31 December 2021
Number of outstanding shares	523,661	-	523,661
Share capital in Lek	**4,995,616**	**-**	**4,995,616**

Legal reserves

Legal reserves were created based on the decision of the Supervisory Council of the Bank of Albania No. 69, dated 18 December 2014, which states that reserves are created by appropriating 20% of the Bank's net profit for the year, as reported for regulatory purposes. Additionally, a legal reserve created as 5% of the statutory profit is required by Law No. 9901, dated 14 April 2008, "On entrepreneurs and commercial companies".

30. Commitments and contingencies

	2021	2020
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	2,527,860	2,311,471
International guarantees	517,392	671,724
Local guarantees	797,165	507,215
Letters of credit	-	109,003
Less: Provisions recognised as liabilities	(20,349)	(31,032)
Total	**3,822,069**	**3,568,381**
Credit commitments		
Unused credit card facilities	19,234	4,571
Unused overdraft limits	1,155,125	1,235,977
Non-disbursed loans tranches	2,900	-
Unused portion of credit lines	1,350,600	1,070,923
Total	**2,527,860**	**2,311,471**

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2021.

30. Commitments and contingencies (continued)

Legal proceedings

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2021 is remote, except the cases the provision was recorded as shown in note 28.

Commitments by credit quality based on credit risk grades at 31 December 2021 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	1,314,018	540	-	**1,314,558**
Letters of credit	-	-	-	**-**
Total Guarantees and Letter of Credits	**1,314,018**	**540**	**-**	**1,314,558**
Loans commitments not yet disbursed	**2,510,786**	**17,072**	**3**	**2,527,860**
Total credit related commitments	**3,824,804**	**17,612**	**3**	**3,842,418**
Provision for guarantees and Letter of Credits	(7,406)	(30)	-	**(7,435)**
Provision for loan commitments	(12,608)	(304)	(1)	**(12,913)**
Total commitments	**3,804,790**	**17,278**	**2**	**3,822,069**

Commitments by credit quality based on credit risk grades at 31 December 2020 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	1,158,994	19,945	-	**1,178,939**
Letters of credit	109,003	-	-	**109,003**
Total Guarantees and Letter of Credits	**1,267,997**	**19,945**	**-**	**1,287,942**
Loans commitments not yet disbursed	**2,278,765**	**32,706**	**-**	**2,311,471**
Total credit related commitments	**3,546,762**	**52,651**	**-**	**3,599,413**
Provision for guarantees and Letter of Credits	(11,573)	(108)	-	**(11,681)**
Provision for loan commitments	(18,509)	(842)	-	**(19,351)**
Total commitments	**3,516,680**	**51,701**	**-**	**3,568,381**

The Bank calculates expected credit loss (ECL) and lifetime expected credit loss (LECL) provision for guarantees and letter of credits by applying to underlying exposures based on the staging classification. In cases, when an individual assessment is applied, the specific provision forecast is considered for the final impairment. Refer to disclosure of impairment of loans and advances to customers for the provisioning rates.

31. Related party transactions

The Bank's related parties include the parent company and ultimate controlling party ProCredit Holding AG & Co. KGaA AG, fellow subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

The Bank has a management services agreement with ProCredit Holding AG & Co. KGaA AG, for providing the Bank with personnel in the high level management of the Bank, including one Member of the Management Board. Management fees paid to ProCredit Holding AG & Co. KGaA AG in 2021, were Lek 42,856 thousand (2020: Lek 37,650 thousand).

Further, in the course of conducting its banking business, the Bank entered into business transactions with related parties and the balances and transactions with the ProCredit Holding AG & Co. KGaA AG, parent company and affiliated entities under common control at 31 December 2021 and 2020 are presented below:

	Relationship	2021	2020
Assets receivable from:			
Loans and advances to ProCredit banks	Entities under common control	2,508,684	2,515,616
Other assets due from ProCredit banks		2,572	10,511
Other assets due from ProCredit Holding	Parent Company	76	-
		2,511,332	**2,526,127**
Liabilities due to:			
Liabilities to ProCredit banks	Entities under common control	3,029,846	3,727,999
Other liabilities to ProCredit banks		5,367	1,273
Other liabilities to Quipu GmbH		11,688	10,978
Liabilities to ProCredit Holding AG & Co. KGaA	Parent Company	1,883,463	2,923,878
Other liabilities to Procredit Holding		835	-
Subordinated debt from ProCredit Holding AG & Co. KGaA		857,898	878,950
		5,789,098	**7,543,078**

	Relationship	2021	2020
Income from:			
Interest income from ProCredit banks	Under common control	145	(10,262)
Other operating income from ProCredit banks		29,461	-
The Parent: Other income	Parent company	-	6,604
		29,606	**(3,658)**
Expenses:			
The Parent: Interest expenses for subordinated debt & senior loans	Parent Company	67,846	76,263
ProCredit Banks: Interest expenses for senior loans	Under common control	49,688	41,291
The Parent & banks: Other administrative expenses		60,939	57,214
The Parent and academies: Training expenses		23,223	16,806
ProCredit Banks: commitment fees		22,279	17,136
Quipu GmbH: IT services		253,575	242,394
Quipu GmbH: Card processing fees		15,991	12,161
		493,541	**463,265**

Key management remuneration:

	2021	2020
Salaries	266,463	34,452
Short-term pension contribution (mandatory scheme)	15,074	2,030
Total	**281,537**	**36,482**

32. Events after the reporting date

The management of the Bank is not aware of any events after the reporting date that would require either adjustments or additional disclosures in the set of financial statements, except for the following disclosures in relation to the:

1. Increase of capital in the amount of EUR 2,999,970.50 equivalent in Lek 363,686,423.72 as per Shareholders Assembly decision of February 25, 2022.
2. The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation may have an impact on the European and global economy. The Bank does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities within the next financial year. At this stage, management is not able to reliably estimate the impact as events are unfolding day by day. The long-term impact may also affect trading volumes, cash flows and profitability. Nevertheless, at the date of these financial statements, the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Contact Addresses

Head Office

ProCredit Bank sh.a.
Place of Registration: Tiranë
Nr. of Court Registr. 20797/11.02.1999
KIB: 20911005
NUIS: J91524011J
Adress: Rr.”Dritan Hoxha” Nd.92, H.15,
Nësia Bashkiake Nr.11,
PO Box:1026, Tiranë
Contact Center :+355(0) 42 389 389
Informacion@procredit-group.com
www.procreditbank.com.al

Branches

Tirana Branch
Rr.”Dritan Hoxha” Nd.92, H.15,
Njësia Bashkiake Nr.11, Tiranë

Agencies and 24/7 Zones

Zyrat Qendrore Agency, 24/7 Zone
Rr.”Dritan Hoxha” Nd.92, H.15,
Njësia Bashkiake Nr.11, Tiranë

Bulevardi Agency, 24/7 Zone
Bulevardi Zogu I, Nr.17, Pasuria me
Nr.6/44-N3,ZK8360, Tiranë

Square 21 Agency, 24/7 Zone
Rruga e Kavajes, KompLeksi Arlis-
Ndertim. kati 0, prane Policise
Bashkiake,Tiranë

Shkodër Agency, 24/7 Zone
Lagja Qemal Stafa, Bulevardi
Zogu i Pare,Shkodër

Durrës Agency, 24/7 Zone
Lagjia Nr.4, Autostrada Egnatia,
Pallatet Xhemf, Godina Nr.3, Kati 0, Durrës

Korçë Agency, 24/7 Zone
Adresa: Rruga Midhi Kostani, Korçë

Fier Agency, 24/7 Zone
Rruga Kastriot, Hyrja-1, Fier, Pasuria me
Nr.4/66-N6, vol.17 fq.65, ZK 8534, Fier