ProCredit Bank

Albania

Annual Report 2020

Key Figures

		EUR ,000		ALL ,000
	2020	2019	2020	2019
Balance Sheet Data				
Total Assets	286,555	262,398	35,446,846	31,952,136
Gross Loan Portfolio	216,010	192,587	26,720,439	23,451,326
Business Clients Loan Portfolio	202,447	178,197	25,042,733	21,699,045
Private Clients Loan Portfolio	13,563	14,390	1,677,706	1,752,281
Loan Loss Provision	(11,497)	(10,626)	(1,422,237)	(1,293,946)
Net Loan Portofolio	204,513	181,961	25,298,202	22,157,380
Customer Deposits	193,388	176,897	23,922,043	21,540,689
Liabilities to Banks and Financial Institutions				
(excluding PCH)	4,327	4,505	535,309	548,625
Total Equity	25,767	24,190	3,187,389	2,945,593
Income Statement				
Operating Income	4,963	5,823	614,304	716,258
Operating Expenses	8,183	11,075	1,012,755	1,362,249
Operating Profit before Tax	(3,219)	(6,523)	(398,451)	(802,302)
Net Profit	(3,219)	(6,523)	(398,451)	(802,302)
Key Ratios				
Cost/Income Ratio	164.86%	190.19%		
Return on Equity (ROE)	-12.99%	-26.39%		
Capital Ratio	15.95%	15.45%		
Operational Statistics				
Number of Clients	12,069	12,660		
of which Business Clients	958	906		
Number of Loans Outstanding	2,445	2,635		
Number of Deposit Accounts	37,088	37,940		
Number of Staff	121	111		
Number of Branches and Outlets	6	6		

Exchange rate as of December 31:
2020: EUR 1 = ALL 123.70
2019: EUR 1 = ALL 121.77

Average exchange rate for the period
2020: EUR 1 = ALL 123.77
2019: EUR 1 = ALL 123.00

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Mission Statement

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who would like to save. 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.

In our operations with business clients, 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 other banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility.

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 (customer) service for our clients.

Members of Management Board as of 31st December 2020 are:

- *Mirsad Haliti*
- *Agan Azemi*

Board of Directors members as of December 2020 are:

- *Eriola Bibolli, Chairman of the Board*
- *Robert Scott Richards*
- *Wolfgang Bertelsmeier*
- *Jovanka Joleska Poposka*
- *Jordan Damcevski*

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:

1. Remuneration policy

In accordance with the ProCredit Bank remuneration policy in force since 16.11.2020, 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.

Both 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 16,000.500. 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
- Newborn 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.

Risk tolerance / appetite of ProCredit Bank Albania

ProCredit Bank Albania is a development-oriented bank that provides financial services to small and medium-sized businesses (SMEs) and private individuals (PI). The business strategy of the bank is straightforward: The two main pillars are the "Hausbank for SMEs" concept and ProCredit Direct for private clients (PI). The Bank explicitly refrains from engaging in speculative lines of business. The overall orientation is geared towards stability, particularly with regard to the earnings situation and the risk profile of the bank.

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 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 and social 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 management sets limits and reporting triggers, which are in compliance with regulatory requirements as defined by 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 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.

Financial Statements

For the year ended 31 December 2020 .
Prepared in accordance with International Financial Reporting Standards.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of ProCredit Bank Albania SHA,

Opinion

We have audited the financial statements of ProCredit Bank Sh.A (the Bank), which comprise the statement of financial position as at December 31, 2020, 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, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with 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 of the Bank in accordance with Article 53 of Law no. 9662, dated 18 December 2006 "On Banks in the Republic of Albania", amended and with Articles 17 and 19 of Law no. 25/2018 "On accounting and financial statements", but does not include the financial statements and the auditor's report thereon. The Annual Report 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.

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 Annual Report, 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 separate financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error. In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank‘s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 separate 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.

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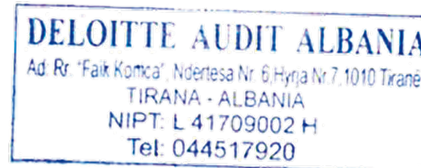
Identification number (NUIS): L41709002H



Enida Cara
Engagement Partner
Statutory Auditor

Tirana, Albania
May 25, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		In ALL'000		*In EUR'000*	
	Notes	**2020**	**2019**	**2020**	**2019**
Interest income	9	1,086,984	1,072,602	8,782	8,720
Interest expense	9	(297,878)	(282,900)	(2,407)	(2,300)
Net margin on interest and similar income		**789,106**	**789,702**	**6,376**	**6,420**
Credit loss allowance	18	(279,383)	(213,822)	(2,257)	(1,738)
Net margin on interest and similar income after credit loss allowance		**509,723**	**575,880**	**4,118**	**4,682**
Fee and commission income	10	240,628	260,368	1,944	2,117
Fee and commission expense	10	(113,776)	(108,994)	(919)	(886)
Other operating income	11	37,385	156,931	302	1,276
Foreign exchange gains less losses		85,484	83,436	691	678
Personnel expense	13	(256,986)	(310,052)	(2,076)	(2,521)
Other operating expenses	12	(900,909)	(1,459,871)	(7,279)	(11,869)
Loss before income tax		(398,451)	(802,302)	(3,219)	(6,523)
Income tax (expense)/credit	14	-	-	-	-
Loss for the year		**(398,451)**	**(802,302)**	**(3,219)**	**(6,523)**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities measured at FVOCI		25,808	1,833	209	15
Deferred tax	14	(4,101))	(473)	(33)	(4)
Total comprehensive loss for the year		**(376,744)**	**(800,942)**	**(3,044)**	**(6,512)**

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 16 to 58.

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

		In ALL'000		*In EUR'000*	
	Notes	**2020**	**2019**	**2020**	**2019**
Assets					
Cash and balances with Central Bank	15	4,515,050	3,170,308	36,500	**26,035**
Loans and advances to financial institutions	**16**	**3,056,956**	**3,014,192**	**24,713**	**24,753**
Loans and advances to customers	17	25,298,202	22,157,380	204,513	**181,961**
Investment securities measured at fair value through other comprehensive income (FVOCI)	18	-	2,288,243	-	18,792
Investment securities at amortized cost (AC)	18	1,293,444	-	10,456	-
Deferred income tax assets	14	-	4,101	-	**34**
Corporate income tax receivable		57,635	84,260	466	**692**
Other assets	19	570,779	516,712	4,614	**4,243**
Investment property	20	2,787	3,175	23	**26**
Premises and equipment	21	640,989	681,651	5,182	**5,598**
Intangible assets	22	11,004	32,114	89	**264**
Total assets		35,446,846	31,952,136	286,555	**262,398**
Liabilities					
Due to banks	23	4,075,540	3,426,893	32,947	28,142
Due to customers	24	23,922,043	21,540,689	193,388	**176,897**
Other borrowed funds		3,111,646	2,942,902	25,155	**24,168**
Other liabilities	26	218,767	190,660	1,769	**1,566**
Other provisions	26	52,511	40,023	425	**329**
Subordinated debt	25	878,950	865,376	7,105	**7,107**
Total liabilities		**32,259,457**	**29,006,543**	**260,788**	**238,208**
Shareholders' equity					
Share capital	27	**4,995,616**	**4,377,075**	**40,385**	**35,945**
Accumulated deficit	**27**	**(2,516,337)**	**(2,117,886)**	**(20,341)**	**(17,327)**
Legal reserves	27	**708,110**	**708,110**	**5,724**	**5,815**
Currency translation reserve		**-**	**-**	**(2)**	**(66)**
Revaluation reserve for investment securities measured at FVOCI	18	**-**	**(21,707)**	**-**	**(178)**
Total shareholders' equity		**3,187,389**	**2,945,593**	**25,767**	**24,190**
Total liabilities and shareholders' equity		**35,446,846**	**31,952,136**	**286,555**	**262,398**

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 24 May 2021 and signed on their behalf by:

Mirsad Haliti
Member of the Management Board

Agan Azemi
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 16 to 58.

Statement of Changes in Equity

For the year ended 31 December 2020

In ALL'000	Share Capital	Legal Reserves	Revaluation Reserve/(Deficit)	Retained Earnings/ Accumulated deficit	Total
Balance at 1 January 2019	3,763,884	708,110	(23,067)	(1,315,585)	3,133,343
Increase in Paid Up Capital	613,191	-	-	-	613,191
Profit (loss) for the year	**-**	**-**	**-**	**(802,302)**	**(802,302)**
Other comprehensive income					
Investment Securities at FVOCI	-	-	1,833	-	1,833
Deferred tax	**-**	**-**	**(473)**	**-**	**(473)**
Total comprehensive loss	-	-	1,360	-	1,360
Balance at 31 December 2019	4,377,075	708,110	(21,707)	(2,117,886)	2,945,593
Balance at 1 January 2020	4,377,075	708,110	(21,707)	(2,117,886)	2,945,593
Increase in Paid Capital (Note 27)	618,541	-	-	-	618,541
Profit (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	-	21,707
Balance at 31 December 2020	**4,995,616**	**708,110**	**-**	**(2,516,337)**	**3,187,389**

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 16 to 58.

Statement of Cash Flows

For the year ended 31 December 2020

			In ALL'000		*In EUR'000*
	Note	**2020**	**2019**	**2020**	**2019**
Cash flows from operating activities					
Loss before income tax		(398,452)	(802,302)	(3,219)	**(6,523)**
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of premises and equipment and investment property	20,21	86,837	101,947	702	**829**
Amortization of intangible assets	22	15,313	18,319	124	149
Impairment of premises and equipment	21	-	257,065	-	2,090
Impairment charge for credit losses	17	279,944	213,821	2,262	**1,738**
Interest income	9	(1,086,984)	(1,072,602)	(8,782)	**(8,720)**
Interest expense	9	297,878	282,900	2,407	**2,300**
Loss on disposal of assets		6,492	13,103	52	**107**
Charge of other provisions		52,997	375,400	428	**3,052**
		(745,975)	(612,349)	(6,027)	**(4,979)**
Changes in operating assets and liabilities:					
Loans and advances to financial institutions and compulsory res.		(187,734)	(103,866)	(1,518)	**(853)**
Loans and advances to customers	17	(3,411,390)	(115,496)	(27,578)	(948)
Other assets	19	(107,064)	(53,692)	(866)	**(441)**
Repossessed property		-	(26,407)	-	**(-217)**
Due to banks	23	648,195	(404,911)	5,240	**(3,325)**
Due to customers	24	2,399,243	874,889	19,396	**7,185**
Other liabilities	26	44,696	2,684	361	**22**
		(1,360,029)	**(439,148)**	**(10,991)**	(3,556)
Interest received		**1,081,900**	**1,161,850**	**8,746**	**9,541**
Interest paid		**(318,745)**	**(286,145)**	**(2,577)**	**(2,350)**
Corporate income received		**26,625**	**-**	**215**	**-**
Net cash used in operating activities		**(570,249)**	**436,557**	**(4,607)**	**3,635**
Cash flows from investing activities					
Acquisition investment securities measured at AC		**(1,293,978)**	**(1,933,943)**	**(10,461)**	**(15,882)**
Proceeds from matured Investment securities measured at FVOCI		**2,306,219**	**1,262,458**	**18,644**	**10,368**
Proceeds from sale of premises and equipment		**46,220**	**81,817**	**374**	**672**
Disposal of intangible assets		**5,796**	**3,636**	**47**	**30**
Acquisition of premises and equipment		**(98,499)**	**(59,697)**	**(796)**	**(490)**
Net cash generated from/(used in) investing activities		**965,758**	**(645,729)**	**7,807**	**5,303**
Cash flows from financing activities					
Proceeds from subordinated debt		**13,510**	**235,290**	**109**	**1,932**
Capital Increase		**618,541**	**613,191**	**5,000**	**5,036**
Proceeds from other borrowed funds		**1,389,938**	**-**	**11,236**	**-**
Repayment from other borrowed funds		**(1,217,700)**	**(529,602)**	**(9,844)**	**(4,349)**
Net cash generated from financing activities		**804,290**	**318,879**	**6,502**	**2,619**
Translation differences		**-**	**-**	**(553)**	**408**
Increase in cash and cash equivalents		**1,199,799**	**109,707**	**9,150**	**1,359**
Cash and cash equivalents at beginning of the year		**4,288,913**	**4,179,206**	**35,221**	**33,862**
Cash and cash equivalents at end of the year	**15**	**5,488,712**	**4,288,913**	**44,371**	**35,221**

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 16 to 58.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts expressed in ALL '000, unless otherwise stated)

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 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 2020 and 2019, 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 2020 the Bank was operating from Head Office in Tirana, 1 branch, and 5 Self Service areas (24/7 Zones) located in Tirana, Durres, Korçe and Shkoder.

Registered address and place of business. The official address of the Bank is Rruga "Dritan Hoxha", 92, P.O. Box 2395, Tirana, Albania.

Board of Directors

Board of Directors members as of December 2020 are:

- Eriola Bibolli, Chairwoman of the Board
- Robert Scott Richards
- Wolfgang Bertelsmeier
- Jovanka Joleska Popovska
- Jordan Damcevski

Functional and presentation currency. The financial statements are presented in Albanian Lek ("ALL"), 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 ALL'000 to EUR'000.

The statement of financial position at 31 December 2020 has been translated at the official rate of BOA as at 31 December 2020 of ALL 123.70 to EUR 1 (2019: 121.77). The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the ALL amounts into EUR at the average exchange rate during the year of EUR 1:ALL 123.77 (2019: EUR 1: ALL 123.00).

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.

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.

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

2. Significant accounting policies (continued)

Going concern (continued)

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 2020 was 15.95% 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. In November 2020, the Group increased share capital EUR 5,000 thousand. As such, management believes that going concern basis of preparation is appropriate.

The Bank has no intention to liquidate or cease its operations during the year 2020. Management expects the Bank to be profitable in the future, and its ability to continue as going concern will not be impaired.

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.

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

2. Significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

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 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.

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. During this year the bank reassessed Business Model for Investment securities as Hold to Collect since 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 FVTOCI to Amortized Cost category) was accounted prospectively and securities were reclassified to amortized cost as at December 31, 2020 (Please see note 18 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.

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

2. Significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

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 dercognition 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.

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

2. Significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

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 BM 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.

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.

2. Significant accounting policies (continued)

Investment property (continued)

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.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items of property and equipment. Subsequent costs are included in the asset's carrying amount, or are recognised as a separate asset, as appropriate, 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 repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred. At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Land and assets under construction are not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per the table below:

Description	Useful life
Buildings	15-40 years
Leasehold improvements shorter of rental contract life or useful life	
Computer, electronic equipment, ATMs	2-8 years
Vehicles	3-5 years
Furniture and equipment	5-10 years
Other fixed assets	2-7 years
Land is not depreciated	

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.

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.

Due 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 AC.

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 AC.

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.

2. Significant accounting policies (continued)

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.

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, "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.

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

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.

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, ie 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.

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

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.

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.

Deferred income tax asset recognition. The deferred income tax asset has been derecognized by the Bank following a series of negative years in terms of taxable losses and deviations of actual results compared to expectations of the management. Deferred income tax assets are only recorded to the extent that realisation of the related tax benefit is probable. Due to the uncertainties recorded in the last few years, management derecognized deferred income tax asset until a more stable situation with taxable income.

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

4.1. New and amended standards and interpretations

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 3 „Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of assets occurring on or after the beginning of that period).
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Reference Reform (effective for annual periods beginning on or after 1 January 2020).),
- Amendments to IAS 1 „Presentation of Financial Statements" and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors" - Material Definition (effective for annual periods beginning on or after 1 January 2020)
- Changes in References in the Conceptual Framework to IFRS Standards (effective for annual periods beginning on or after 1 January 2020)
- Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 (effective for annual periods beginning on or after May 2020

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

At the date of authorization of these financial statements, the following standards, revisions and interpretations were in issue but not yet effective: The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 3 "Business Combinations" - Conceptual Framework reference with improvements to IFRS 3, (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 4 „Insurance Contracts" - Extension of Temporary Exemptions from the Application of IFRS 9 (the expiry date for temporary exemptions from IFRS 9 was extended to annual periods beginning on or after 1 January 2023.
- Amendments to IAS 1 „Presentation of Financial Statements" - Classification of liabilities as current or long-term (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 „Property, plant and equipment" - Revenue before intended use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Ongoing Contract - The cost of performing a contract (effective for annual periods beginning on or after 1 January 2022)
- Changes in different standards due to "Improvements to IFRS (cycle 2018 -2020)" resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly for the purpose of removing inconsistencies and clarifying of the wording (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 is for illustrative purposes only, so no effective dates are stated).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations 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 takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. 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

5. Financial risk management (continued)

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 2020	31 December 2019
Cash and balances with Central Bank	4,515,050	1,976,980
Loans and advances to banks and other financial institutions	3,056,956	3,014,192
Loans and advances to customers:		
Business Trade	10,765,721	9,579,584
Business Production	7,010,999	5,862,747
Business Agriculture	756,545	589,518
Business Transport	448,768	363,889
Business Other	4,798,438	4,128,307
Private Housing	1,381,809	1,499,548
Private Investment	79,818	77,856
Private Other	56,104	55,931
	25,298,202	**22,157,380**

	31 December 2020	31 December 2019
Investment securities measured at FVOCI	-	2,288,243
Investment securities measured at AC	**1,293,444**	**-**
Other financial assets	369,857	266,352
Total	**1,663,301**	**2,554,595**
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	**2,311,471**	**1,759,520**
Financial guarantees	1,287,942	985,963
Total	**3,599,413**	**2,745,483**

Off balance sheet	31 December 2020	31 December 2019
Credit commitments	2,311,471	1,759,520
Financial guarantees	**1,178,939**	**950,671**
Letters of Credit	109,003	35,292
Provisions recognised as liabilities	**(31,032)**	**(15,895)**
Total	**3,568,381**	**2,729,588**

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.

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

5. Financial risk management (continued)

Expected credit loss (ECL) measurement (continued)

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 that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date, including those that transfer back from Stage II due to decrease in credit risk. 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 (unless they have low credit risk at the reporting date) and 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. As of December 2020 adjustments were made regarding the counting of days past due as criteria for determining default and the indicators for unlikelihood of settling liabilities. These changes were implemented as part of introducing the amended definition of default.

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. 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).

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.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a „credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. The estimation of one-year PDs consists in several steps: 1. Average PiT PDs for several client sub-groups. 2. TTC PDs per risk class. 3. PiT adaption of the TTC PDs per risk class. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support.

LGD is calculated on a collective basis based on the latest available recovery statistics of the historical default observations.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linarites and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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 risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while 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 ALL):

	2020	2019
USD	100.84	108.64
EUR	**123.70**	**121.77**
GBP	137.93	143.00
CHF	**114.46**	**112.30**
CNY	15.42	15.61

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2020 and 2019, translated into ALL'000.

5. Financial risk management (continued)

31 December 2020	ALL	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
Securities measured at amortised cost (AC)	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					
Due to banks	100,141	3,975,399	-	-	4,075,540
Due 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

31 December 2019	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,403,718	1,570,576	196,014	-	3,170,308
Loans and advances to banks	-	2,613,043	399,130	2,019	3,014,192
Investment securities measured at FVOCI	2,288,243	-	-	-	2,288,243
Loans and advances to customers	9,619,539	11,969,005	568,836	-	22,157,380
Other financial assets	63,414	173,038	29,900	-	266,352
Total Financial Assets	**13,374,914**	**16,325,662**	**1,193,880**	**2,019**	**30,896,475**
Open forward position (asset)	**-**	**-**	**9,743**	**-**	**9,743**
Liabilities					
Due to banks	2,307	3,315,936	108,650	-	3,426,893
Due to customers	11,056,968	9,425,247	1,056,324	2,150	21,540,689
Other borrowed funds	-	2,942,902	-	-	2,942,902
Other financial liabilities	62,715	76,057	32,027	51	170,850
Subordinated debt	-	865,376	-	-	865,376
Total Financial Liabilities	**11,121,990**	**16,625,518**	**1,197,001**	**2,201**	**28,946,710**
Open forward position (liability)		**9,742**			**9,742**
Net on-balance sheet currency position	**2,252,924**	**(299,856)**	**(3,121)**	**(182)**	**(1,949,765)**
Off-balance sheet commitments and guarantees	**1,245,319**	**1,385,362**	**114,802**	**-**	**2,745,483**
Credit commitments	723,013	989,985	46,522	-	1,759,520
Off balance sheet - letters of credit	-	32,196	3,096	-	35,292
Off balance sheet - bank guarantees	522,306	363,181	65,184	-	950,671
Total credit related commitments	**1,245,319**	**1,385,362**	**114,802**	**-**	**2,745,483**

The Bank's sensitivity analysis takes into consideration the 10-year historical exchange rates movements of the ALL 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 analyses is based on statistical methods and it represents management's assessment of effects from reasonably possible changes in foreign exchange rates..

5. Financial risk management (continued)

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 2020 data and 31 December 2019 (under a standard scenario) is presented below:

			Effect on profit or loss	
Currency	**Historical shocks 2020**	**Historical shocks 2019**	**31 December 2020**	**31 December 2019**
EUR	0.29%	2.21%	(274)	(2,749)
USD	28.40%	-5.29%	(4,172)	139
Total			**(4,446)**	**(2,610)**

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 (ALL) 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. To monitor interest rate changes, the Bank employs a repricing gap analysis and captures the impact on the economic value (long term perspective) and the impact on earnings (short-term perspective) deriving from a one-time shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts; this is done for all interest rate risk relevant currencies. By assessing both indicators simultaneously, it is possible to determine the full scope of the interest rate risk exposure.

5. Financial risk management (continued)

Considering ALL, EUR and USD denominated asset and liability structures as at 31 December 2020 and 2019, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

ALL 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		1,018,209	-	-	-	-	-	1,018,209	-
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	-	1,293,978	-	-	-	-	1,293,978,	(534)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		300,000	-	-	-	-	-	300,000	-
Loans and advances to customers	Fixed	675,375	2,059,280	3,229,747	1,710,457	2,655,234	1,133,543	11,463,636	-
	Var.	42,424	397,393	462,419	-	-	-	902,237	-
Other financial assets		-	-	-	-	-	-	-	204,439
Total assets		2,036,008	3,750,651	3,692,167	1,710,457	2,655,234	1,133,543	14,978,060	962,337
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		**1,970,266**	**-**	**-**	**-**	**-**	**-**	**1,970,266**	**3,623,165**
Deposits from customers		29,317	1,601,668	2,474,247	1,807,999	569,886	22,390	6,505,507	-
Borrowings and subordinated debt	Fixed	300,000	-	-	-	-	-	300,000	-
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	3,414,721
Total liabilities		2,299,583	1,601,668	2,474,247	1,807,999	569,886	22,390	8,775,773	7,037,886
IR sensitivity gap- open position		(263,576)	2,148,983	1,217,919	(97,542)	2,085,348	1,111,153	6,202,286	(6,075,549)

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		2,139,757	-	-	-	-	-	2,139,757	-
Current accounts with banks		2,057,341	-	-	-	-	-	2,057,341	37,200
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.		-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	815,568	2,039,125	3,069,108	1,989,222	3,004,755	1,584,482	12,502,260	-
	Var.	249,923	502,954	406,839	-	-	-	1,159,716	-
Other financial assets		-	-	-	-	-	-	-	(316,470)
Total assets		5,262,590	2,542,079	3,475,947	1,989,222	3,004,755	1,584,482	17,859,075	157,109
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		2,174,528	-	-	-	-	-	2,174,528	4,641,250
Deposits from customers		33,523	985,043	1,860,077	342,154	151,656	85,600	3,458,053	-
Borrowings and subordinated debt	Fixed	247,400	556,650	1,669,950	1,546,250	1,979,200	-	5,999,450	-
	Var.	-	1,731,800	-	-	-	-	1,731,800	-
Other financial liabilities		-	-	-	-	-	-	-	121,607
Total liabilities		2,455,451	3,273,493	3,530,027	1,888,404	2,130,856	85,600	13,363,831	4,762,856
IR sensitivity gap- open position		2,807,140	(731,414)	(54,079)	100,818	873,898	1,498,882	4,495,244	(4,605,747)

5. Financial risk management (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		137,234	-	-	-	-	-	137,234	6,012
Current accounts with banks		430,502	-	-	-	-	-	430,502	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		231,932	-	-	-	-	-	231,932	-
Loans and advances to customers	Fixed	12,920	56,717	306,091	42,655	91,391	123,996	633,769	-
	Var.	-	-	16,828	-	-	-	16,828	-
Other financial assets		-	-	-	-	-	-	-	11,279
Total assets		812,588	56,717	322,919	42,655	91,391	123,996	1,450,265	39,999
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		261,617	-	-	-	-	-	261,617	519,400
Deposits from customers		3,464	202,992	241,339	33,646	234,535	-	715,976	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	9,506
Total liabilities		265,081	202,992	241,339	33,646	234,535	-	977,593	528,906
IR sensitivity gap- open position		547,507	(146,275)	81,580	9,009	(143,144)	123,996	472,673	(488,907)

ALL Interest Sensitivity Gap									
At 31 December 2019		**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		-	-	-	-	-	-	-	708,481
Balances with Central Banks		623,358		-	-	-	-	623,358	72,889
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	100,000	1,354,030	845,970	-	-	-	2,300,000,	(11,758)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	636,101	2,071,413	1,960,321	1,356,065	2,115,678	1,009,829	9,149,407	-
	Var.	94,209	298,061	679,639				1,071,909	
Other financial assets		-	-	-	-	-	-	-	389,590
Total assets		1,453,668	3,723,504	3,485,930	1,356,065	2,115,678	1,009,829	13,144,674	1,159,202
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	2,307
Current accounts from customers		1,266,622	-	-	-	-	-	1,266,622	2,902,660
Deposits from customers									
Borrowings and subordinated debt		538	2,144,235	2,087,075	1,821,542	738,692	-	6,792,082	-
	Fixed								
Other financial liabilities	Var.	-	-	-	-	-	-	-	-
Total liabilities		1,267,160	2,144,235	2,087,075	1,821,542	738,692		8,058,704	6,092,633
IR sensitivity gap- open position		186,508	1,579,269	1,398,855	(465,477)	1,376,986	1,009,829	5,085,970	(4,933,431)

5. Financial risk management (continued)

EUR Interest Sensitivity Gap									
At 31 December 2019		**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		-	-	-	-	-	-	-	426,644
Balances with Central Banks		1,145,783	-	-	-	-	-	1,145,783	
Current accounts with banks		1,997,977	-	-	-	-	-	1,997,977	617,086
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.		-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	897,721	2,517,619	2,220,967	1,681,442	2,540,118	1,512,493	11,370,360	-
	Var.	91,950	702,872	456,272	-	-	-	1,251,094	
Other financial assets		-	-	-	-	-	-	-	(305,748)
Total assets		4,133,431	3,220,491	2,677,239	1,681,442	2,540,118	1,512,493	15,765,214	737,982
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	11,468
Current accounts from customers		1,694,246	-	-	-	-	-	1,694,246	4,337,025
Deposits from customers		481	673,087	1,944,345	389,725	332,059	84,137	3,423,833	-
Borrowings and subordinated debt	Fixed	791,505	1,035,045	1,217,700		2,313,630		5,357,880	-
	Var.		1,704,780					1,704,780	-
Other financial liabilities		-	-	-	-	-	-	-	115,999
Total liabilities		2,486,232	3,412,912	3,162,045	389,725	2,645,689	84,137	12,180,739	4,464,492
IR sensitivity gap- open position		1,647,199	(192,421)	(484,806)	1,291,717	(105,571)	1,428,356	3,584,475	(3,726,510)

USD Interest Sensitivity Gap									
At 31 December 2019		**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		-	-	-	-	-	-	-	58,203
Balances with Central Banks		134,560	-	-	-	-	-	134,560	3,469
Current accounts with banks		399,130	-	-	-	-	-	399,130	
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	46,902	115,069	332,163	42,835	17,331	912	555,212	-
	Var.	12,822	4,882	7,288				24,992	-
Other financial assets		-	-	-	-	-	-	-	11,662
Total assets		**593,414**	**119,951**	**339,451**	**42,835**	**17,331**	**912**	**1,113,894**	**73,335**
Liabilities									
Current accounts from banks		108,640	-	-	-	-	-	108,640	-
Current accounts from customers		165,188	-	-	-	-	-	165,188	265,172
Deposits from customers		134	274,137	279,919	28,073	41,428	-	623,692	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	35,042
Total liabilities		**273,962**	**274,137**	**279,919**	**28,073**	**41,428**	**-**	**897,520**	**300,214**
IR sensitivity gap- open position		319,452	(154,186)	59,532	14,762	(24,097)	912	216,374	(226,879)

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 2020 and 2019, and assuming a parallel shift of interest rate for +/-200bp and 100bp 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 profit/(loss) effect	2020		2019	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	45,589	22,795	38,055	19,028
Change EUR market rates	54,410	27,205	33,854	16,927
Change USD market rates	10,937	5,469	5,306	2,653
Total effect (not-netted)	110,936	55,468	77,216	38,608
As % of capital	2.74%	1.37%	2.00%	1.00%

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.

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 2020, 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 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
Investment securities measured at AC	-	1,293,978	--	-	-	1,293,978
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 FVOCI	-	-	-	-	-	-
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						
Due to other banks	735,639	556,650	1,669,950	1,113,300		4,075,539
Customer accounts – Private	6,625,997	2,099,020	3,672,724	2,545,058	-	14,942,799
Customer accounts – Business	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)

31 December 2019	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	3,170,308	-	-	-	-	3,170,308
Loans and advances to customers	633,651	1,273,998	5,000,991	8,178,153	7,070,587	22,157,380
Investment securities measured at FVOCI	103,625	1,350,095	834,522	-	-	2,288,242
Other financial assets	266,352	-	-	-	-	266,352
Total	**4,173,936**	**2,624,093**	**5,835,513**	**8,178,153**	**7,070,587**	**27,882,282**
Liabilities						
Due to other banks	1,407,469	558,185	-	1,461,240	-	3,426,894
Customer accounts – Business	5,095,955	114,612	1,136,567	355,878	-	6,703,012
Customer accounts – Private	6,215,126	2,427,499	3,282,894	2,912,159	-	14,837,678
Other borrowed funds	-	-	1,218,497	1,724,405	-	2,942,902
Subordinated debt	-	12,986	-		852,390	865,376
Gross loan commitments	1,759,520	-	-	-	-	1,759,520
Financial guarantees	985,963	-	-	-	-	985,963
Other financial liabilities	170,850	-	-	-	-	170,850
Total potential future payments for financial obligations	**15,634,883**	**3,113,282**	**5,637,958**	**6,453,682**	**852,390**	**31,692,195**
Liquidity gap arising from financial instruments	**(11,460,947)**	**(489,189)**	**197,555**	**1,724,471**	**6,218,197**	**(3,809,913)**

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 7%, to 9.5% and 12.5%, 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 ALL and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel II ratio') at or above minimum of 12%.

6. Management of capital (continued)

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;

a) Capital requirements for market risks; and

a) 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 2020 and 2019. 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	2020	2019
Share capital	4,995,616	4,377,075
Statutory reserve	708,110	708,110
Translation exposure	-	-
Statutory accumulated (losses)/profits	(2,387,008)	(2,042,932)
Statutory intangible assets	(10,908)	(31,064)
Total qualifying Tier 1 capital	3,305,810	3,011,189
Tier 2 capital		
Subordinated liability	879,637	866,059
Other deductions	-	-
Total qualifying Tier 2 capital	879,637	866,059
Total regulatory capital	4,184,447	3,877,248
Total risk-weighted assets	26,237,409	25,098,332
Risk-weighted assets:		
On-balance sheet	22,831,843	21,930,866
Off-balance sheet	1,413,634	1,089,424
Risk assets for operational risk	1,899,335	2,078,042
Risk assets for market risk	92,597	-
Total risk-weighted assets	26,237,409	25,098,332
Tier I capital adequacy ratio	12.60%	12.00%
Tier II capital adequacy ratio	15.95%	15.45%

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 – bearing capacity

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 (ALL), and interest rate shocks in the respective currencies. This is captured by the economic value impact indicator and calculated using instantaneous parallel shifts of the discount rates based on interest rate shock for EUR/USD (200 bps), and the calculated ALL shocks (internal and external).
- 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 that are 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 market 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: 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, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. 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.

	31 December 2020				31 December 2019			
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial Assets								
Amortised cost								
Cash and balances with Central Banks	4,515,050	4,515,050	-	-	3,170,308	3,170,308	-	-
Loans and advances to banks	3,056,956	3,056,956	-	-	3,014,192	3,014,192	-	-
Investment securities measured at AC	1,293,444	-	1,293,444	-	-	-	-	-
Loans and advances to customers	25,298,202	-	-	25,282,076	22,157,380	-	-	22,142,274
Agricultural loans	756,545	-	-	756,063	589,518	-	-	589,116
Business loans	23,023,926	-	-	23,009,250	19,934,527	-	-	19,920,935
Private loans	135,922	-	-	135,835	133,787	-	-	133,696
Housing loans	1,381,809	-	-	1,380,928	1,499,548	-	-	1,498,527
Other financial assets	369,857	-	-	369,857	266,352	-	-	266,352
Financial Liabilities								
Due to banks	4,075,540	4,075,540	-	-	3,426,893	3,426,893	-	-
Customers' deposits	23,922,043	13,190,227	-	10,852,608	21,540,689	10,630,913	-	11,155,450
Current accounts	8,783,815	8,783,815	-	-	7,504,858	7,504,858	-	-
Saving accounts and others	4,406,412	4,406,412	-	-	3,126,055	3,126,055	-	-
Term deposits	10,679,535	-	-	10,800,327	10,839,607	-	-	11,085,280
Accrued interest	52,281	-		52,281	70,170	-		70,170
Borrowings and subordinated debt		-			3,808,278	2,942,902		865,376
Borrowings	3,111,646	3,111,646	-		2,942,902	2,942,902	-	-
Subordinated debts	878,950	-	-	878,950	865,376	-	-	865,376
Other financial liabilities	191,916	-	-	191,916	170,850	-	-	170,850

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.

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 recognised 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 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**

As at 31 December 2019	**FVOCI**	**AC**	**Total**
Cash and current accounts with banks	-	3,170,308	3,170,308
Loans and advances to banks	-	3,014,192	3,014,192
Other financial assets	-	266,352	266,352
Loans to Business	**-**	**20,524,044**	**20,524,044**
Loans to customers	-	14,448,045	14,448,045
Overdrafts	-	6,075,999	6,075,999
Credit cards	-	-	-
Loans to Private	**-**	**1,633,336**	**1,633,336**
Loans to customers	-	1,607,084	1,607,084
Overdrafts	-	26,222	26,222
Credit Cards	-	30	30
Total loans and advances to customers	**-**	**22,157,380**	**22,157,380**
Investment securities	**2,288,242**	**-**	**2,288,242**
Albanian Government Treasury Bills	1,930,211	-	1,930,211
Albanian Government Bonds	358,031	-	358,031
Total Financial Assets	**2,288,242**	**28,608,232**	**30,896,474**

9. Net interest income

Interest income was earned on the following assets:

	2020	2019
Interest income		
Loans and advances to customers	1,042,557	1,029,581
Investment securities measured at FVOCI	-	34,576
Investment securities measured at AC	44,130	-
Loans and advances to financial institutions	(4,423)	1,622
Other interest income	4,719	6,823
Total interest income (effective interest method)	**1,086,984**	**1,072,602**
Interest expense		
Due to customers	164,359	149,425
Interest expenses on subordinated debts	39,166	37,785
Interest expenses on financial institutions	79,239	91,208
Other	15,114	4,482
Total interest expense	**297,878**	**282,900**
Net interest income	**789,106**	**789,702**

A total of ALL 21,745 thousand relating to income from unwinding effect for impaired loans is included within interest income from loans and advances to customers for the year ended 31 December 2020 (2019: ALL 18,291 thousand).

10. Net fee and commission income

Fees and commissions income were comprised as follows:

	2020	2019
Money transfer and cheques	70,026	70,920
Account maintenance fees	139,589	151,814
Card fees	24,417	31,515
Letters of credit and guaranties	1,316	1,860
Banking services fees	5,280	2,216
Other	-	2,044
Total fee and commission income	**240,628**	**260,368**
Transfer commission	20,862	23,518
Cards fees expense	63,173	58,601
Fee expenses for off-balance items	17,189	-
Other	12,552	26,875
Total fee and commission expense	**113,776**	**108,994**
Net fee and commission income	**126,852**	**151,374**

11. Other operating income

	2020	2019
Gain on sale of fixed assets	1,669	79,981
Sale of properties acquired through legal process	9,605	22,471
Other	26,111	54,480
Total	**37,385**	**156,931**

Others consists of income from leasing operations, income from reimbursement of expenses etc.

12. Other operating expenses

	2020	2019
IT, Maintenance and repairs	330,464	309,241
Other expenses	148,170	202,081
Depreciation of investment property and property and equipment	86,837	101,947
Consultancy, legal fees and other services	72,617	77,940
Security services	52,073	54,131
Deposit insurance ASD	48,482	50,149
Telephone and electricity	39,378	38,750
Write down of repossessed assets	29,785	228,395
Advertising	21,282	39,723
Training	18,241	20,206
Transportation and business trip expenses	11,767	25,287
Amortization of intangible assets	15,313	18,319
Rent expense	14,822	14,172
Insurance	5,986	6,536
Office supplies	5,693	2,650
Impairment of premises and equipment – Building	-	257,065
Other provision	-	13,280
Total	**900,909**	**1,459,871**

Other expenses consist of loss on disposal from fixed assets, loss on disposal from repossessed property, write-off of accrued fee and commission.

13. Personnel expenses

Personnel expenses were comprised as follows:

	2020	2019
Salaries	229,396	281,488
Social insurance	19,078	19,543
Public defined contribution plan	8,176	8,376
Other	335	644
Total	**256,986**	**310,052**

At 31 December 2020 the Bank had 121 employees (31 December 2019: 111 employees).

14. Income tax

a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2020 and 2019 is presented as it follows:

	2020	2019
Current tax	4,101	-
Deferred tax (benefit)/expense	(4,101)	-
Income tax benefit/(expense)	**-**	**-**

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% (2019: 15%).

14. Income tax (continued)

b) Amounts recognised in OCI

	2020			2019		
	Before tax	**Tax benefit**	**Net of tax**	**Before tax**	**Tax benefit**	**Net of tax**
Securities FVOCI	25,808	(4,101)	21,707	1,833	(473)	1,360
Total	**25,808**	**(4,101)**	**21,707**	**1,833**	**(473)**	**1,360**

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.

	2020	2019
Loss before taxes	(398,452)	(802,302)
Theoretical (credit) tax calculated at 15% (2019:15%)	(59,768)	(120,345)
Non-deductible expenses	31,616	144,425
Derecognition of deferred tax assets	4,101	-
Unrecognised tax loss carry forwards	28,152	(24,080)
Income tax expense	**4,101**	**-**

d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 15% (2019: 15%)

		Movements			Movements		
	2018	**In profit or loss**	**In OCI**	**2019**	**In profit or loss**	**In OCI**	**2020**
Deferred tax assets/(liabilities)							
Investment securities measured at FVOCI	4,575	-	(473)	4,102	-	(4,102)	-
Net deferred tax assets/(liabilities)	**4,575**	**-**	**(473)**	**4,102**	**-**	**(4,102)**	**-**

	2020	2019
Total amount of tax loss carry forwards at the beginning of the period	151,260	311,793
Tax loss/ (tax profit) realized during the year	187,678	(160,533)
Tax loss carry forwards expiring by the end of year	(225,358)	-
Total amount of tax loss carry forward at the end of the year	**113,580**	**151,260**

15. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2020	2019
Cash on hand	1,217,520	1,193,329
Current accounts with non-residents	**-**	**-**
Current account with Central Bank of Albania	1,214,236	79,906
	2,431,756	**1,273,235**
Compulsory reserve with Central Bank of Albania	2,086,976	1,900,152
Allowance for impairment losses	**(3,681)**	**(3,079)**
Total	**4,515,050**	**3,170,308**

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 ALL up to one-year maturity and 5% of balances of deposits in ALL 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.

15. Cash and balances with Central Bank (continued)

Cash and cash equivalents at 31 December 2020 and 2019 are presented below:

	2020	2019
Cash and balances with Central bank	2,431,756	1,273,235
Loans and advances to financial institutions with maturities of three months or less	3,056,956	3,014,192
Monetary values in transit	-	1,486
Total	**5,488,712**	**4,288,913**

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.

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 (note 18)		-	897,322	897,322
Total cash and balances with central banks		**3,301,212**	**897,322**	**4,198,534**

31 December 2019	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		**79,906**	**-**	**79,906**
- Compulsory reserve		**1,900,152**	**-**	**1,900,152**
- Government securities (note 18)		**-**	**1,255,069**	**1,255,069**
Total cash and balances with central banks		1,980,059	1,255,069	3,235,128

16. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2020	2019
Deposits with non-resident banks with original maturities of three months or less	3,056,956	3,014,192
Total	**3,056,956**	**3,014,192**

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.

17. Loans and advances to customers

Loans and advances consisted of the following:

	2020	2019
Loans to customers	20,523,339	17,153,690
Overdrafts	6,094,659	6,204,147
Credit Cards	160	22
Accrued interest	102,281	93,466
	26,720,439	**23,451,326**
Credit loss allowance	(1,422,237)	(1,293,946)
	25,298,202	**22,157,380**

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

	2020	2019
At 1 January	1,293,946	1,714,046
Credit loss allowance for the year	335,741	290,887
Loans written off	(214,683)	(701,190)
Translation impact	7,233	(9,797)
Total	**1,422,237**	**1,293,946**

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

	2020	2019
Loans in ALL	2.00% to 9.00%	2.00% to 9.27%
Loans in Euro	**1.40% to 8.00%**	**1.60% to 7.00%**
Loans in Usd	3.50% to 4.00%	3.00% to 5.00%

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 2020		31 December 2019	
	Loans and advances	ECL	Loans and advances	ECL
Stage 1 and 2				
Arrears 0-7 days	24,973,650	(635,430)	21,047,764	(393,898)
Arrears 8-30 days	181,603	(11,590)	853,972	(73,203)
Arrears 31-90 days	21,447	(3,428.00)	122,678	(17,361)
Stage 3	1,543,739	(771,789)	1,426,912	(809,485)
	26,720,439	**(1,422,237)**	**23,451,326**	**(1,293,946)**

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

31 December 2020	Business	Private	Total
Total gross amount	25,042,733	1,677,706	26,720,439
Credit loss allowance (individual and collective)	(1,262,262)	(159,975)	(1,422,237)
Net carrying amount	**23,780,471**	**1,517,731**	**25,298,202**

31 December 2019	Business	Private	Total
Total gross amount	21,699,045	1,752,281	23,451,326
Credit loss allowance (individual and collective)	(1,175,001)	(118,945)	(1,293,946)
Net carrying amount	**20,524,044**	**1,633,336**	**22,157,380**

17. Loans and advances to customers (continued)

Loans to customers by credit risk stages are presented below:

31 December 2020	Business	Private
Stage 1	22,154,158	1,384,936
Stage 2 (SICR)	1,461,313	176,293
Stage 3 (Default)	1,427,262	116,477
Gross	**25,042,733**	**1,677,706**
Less: credit loss allowance	(1,262,262)	(159,975)
Net carrying amount	**23,780,471**	**1,517,731**

31 December 2019	Business	Private
Stage 1	18,670,555	1,553,834
Stage 2 (SICR)	1,723,067	76,958
Stage 3 (Default)	1,305,422	121,489
Gross	**21,699,045**	**1,752,281**
Less: credit loss allowance	(1,175,001)	(118,945)
Net carrying amount	**20,524,044**	**1,633,336**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2020 and 31 December 2019 are disclosed in the table below:

	31 December 2020			31 December 2019		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Business						
Loans	18,967,554	(1,150,434)	17,817,120	15,506,016	(1,057,972)	14,448,045
Overdrafts	6,075,179	(111,828)	5,963,351	6,193,028	(117,029)	6,075,999
Private						
Loans	1,649,656	(158,700)	1,490,956	1,724,831	(117,747)	1,607,084
Overdrafts	27,890	(1,262)	26,628	27,418	(1,197)	26,222
Credit Cards	160	(13)	147	31	(1)	30
Total loans and advances to customers at AC	**26,720,439**	**(1,422,237)**	**25,298,202**	**23,451,326**	**(1,293,946)**	**22,157,380**

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.

Gross carrying amount	Balance at January 1, 2020	Transfer	Increases/ Decreases	Write-offs	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	20,224,390	(957,776)	4,146,051	-	126,430	23,539,095
Stage 2 Lifetime ECL not credit impaired	1,800,024	403,359	(578,952)	-	13,174	1,637,605
Stage 3 Lifetime ECL - credit impaired	1,426,912	554,417	(237,216)	(214,683)	14,309	1,543,739
Total	**23,451,326**	**-**	**3,329,883**	**(214,683)**	**153,913**	**26,720,439**

17. Loans and advances to customers (continued)

Credit loss allowance	Balance at January 1, 2020	Transfer	Increases/ Decreases	Change in model risk parameters	Write-offs	Foreign exchange and other movements	Balance at December 31, 2020
Stage 1 12 M expected credit losses	(217,245)	3,729	(154,186)	(51,816)	-	(1,307)	(420,825)
Stage 2 Lifetime ECL not credit impaired	(267,216)	65,347	(6,525)	(19,119)	-	(2,110)	(229,623)
Stage 3 Lifetime ECL - credit impaired	(809,485)	(69,076)	41,810	(145,904)	214,683	(3,817)	(771,789)
Total	**(1,293,946)**	**-**	**(118,901)**	**(216,839)**	**214,683**	**(7,234)**	**(1,422,237)**

17. Loans and advances to customers (continued)

Gross carrying amount	Balance at January 1, 2019	Transfer	Increases/ Decreases	Write-offs	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	20,968,546	(1,909,183)	1,287,175	-	(122,148)	20,224,390
Stage 2 Lifetime ECL not credit impaired	1,314,205	1,099,208	(628,274)	-	14,885	1,800,024
Stage 3 Lifetime ECL - credit impaired	1,758,858	809,975	(583,984)	(701,190)	143,253	1,426,912
Total	24,041,609	-	74,917	(701,190)	35,990	23,451,326

Credit loss allowance	Balance at January 1, 2019	Transfer	Increases/ Decreases	Change in model risk parameters	Write-offs	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses	(432,060)	28,629	(87,000)	267,957	-	5,228	(217,246)
Stage 2 Lifetime ECL not credit impaired	(223,112)	109,558	(20,205)	(131,062)	-	(2,395)	(267,216)
Stage 3 Lifetime ECL - credit impaired	(1,058,875)	(138,187)	102,296	(422,874)	701,190	6,966	(809,484)
Total	**(1,714,047)**	**-**	**(4,909)**	**(285,979)**	**701,190**	**9,799**	**(1,293,946)**

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 2020:

31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	(12 months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit impaired)		
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	49,574	1,427,262
Gross carrying amount	**22,154,158**	**1,461,313**	**1,377,688**	**49,574**	**25,042,733**
Expected Credit Loss	(353,405)	(213,010)	(676,575)	(19,272)	(1,262,262)
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**

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	(12 months ECL)	(lifetime ECL for SICR)	(lifetime ECL for credit impaired)		
Business				-	
Performing	14,187,130	173,295	-	-	14,360,425
Performing LP with EWI	4,220,500	24,766	-	-	4,245,267
Underperforming	262,926	1,525,005	212,844	-	2,000,775
Default	-	-	1,058,456	34,122	1,092,578
Gross carrying amount	**18,670,555**	**1,723,067**	**1,271,301**	**34,122**	**21,699,045**
Expected Credit Loss	(176,362)	(252,417)	(743,793)	(2,429)	(1,175,001)
Carrying amount	**18,494,194**	**1,470,650**	**527,507**	**31,693**	**20,524,044**
Private					
Performing	1,279,303	6,493	-	-	1,285,796
Performing LP with EWI	221,770	-	-	-	221,770
Underperforming	52,761	70,465	-	-	123,226
Default	-	-	121,489	-	121,489
Gross carrying amount	**1,553,834**	**76,958**	**121,489**	**-**	**1,752,281**
Expected Credit Loss	(40,884)	(14,799)	(63,262)	-	(118,945)
Carrying amount	**1,512,950**	**62,159**	**58,227**	**-**	**1,633,336**

Analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

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	-	510,398	510,398
Total Stage 3 Individually impaired loans	**1,675**	**1,163,928**	**1,165,603**
Total loans	**1,677,706**	**25,042,733**	**26,720,439**
Expected credit losses	(159,975)	(1,262,262)	(1,422,237)
Net loans	**1,517,731**	**23,780,471**	**25,298,202**

17. Loans and advances to customers (continued)

2019			
	Private	Business	Total
Stage 1 and Stage 2			
0 days past due	1,513,656	19,492,193	21,005,849
1 to 30 days past due	101,751	794,136	895,888
31 to 90 days past due	15,385	107,293	122,678
Total Stage 1 and Stage 2 impaired loans	**1,630,792**	**20,393,622**	**22,024,414**
Stage 3 collectively			
impaired loans			
0 days past due	32,076	68,606	100,682
1 to 30 days past due	23,083	64,758	87,840
31 to 90 days past due	8,901	25,515	34,416
over 90 days past due	30,119	147,520	177,640
Total Stage 3 Collectively impaired loans	**94,179**	**306,398**	**400,578**
Stage 3 Individually			
impaired loans			
0 days past due	-	184,337	184,337
1 to 30 days past due	-	118,183	118,183
31 to 90 days past due	-	256,638	256,638
over 90 days past	27,310	439,866	467,176
Total Stage 3 Individually impaired loans	**27,310**	**999,024**	**1,026,334**
Total loans	**1,752,281**	**21,699,045**	**23,451,326**
Expected credit losses	(118,945)	(1,175,001)	(1,293,946)
Net loans	**1,633,336**	**20,524,044**	**22,157,380**

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					
End of period	23,539,094	1,637,606	1,494,165	49,574	26,720,439
out of which gross carrying amount of loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	644	-	644
out of which gross carrying amount of loans with expired moratorium due to COVID-19:					
moratorium only	5,903,773	319,344	28,217	-	6,251,334
moratorium and restructuring	-	230,535	212,258	-	442,793

Loss allowance for loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
As of end of period	(420,824)	(229,624)	(752,517)	(19,272)	(1,422,237)
out of which loss allowances for loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	(285)	-	(285)
out of which loss allowances for loans with expired moratorium due to COVID-19:					
moratorium only	(127,639)	(29,846)	(14,985)	-	(172,470)
moratorium and restructuring	-	(34,326)	(79,410)	-	(113,736)

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.

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.

	2020		2019	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business Trade	329,681	(84,798)	60,383	(24,854)
Business Agriculture	46,116	(15,623)	24,436	(9,771)
Business Production	140,999	(34,598)	807	(381)
Business Other	279,230	(116,010)	92,258	(41,853)
Private Housing	6,320	(2,726)	3,720	(1,754)
Private Investment	-	-	141	(5)
Total	**802,346**	**(253,755)**	**181,745**	**(78,618)**
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
Net loans				**802,346**

17. Loans and advances to customers (continued)

31 December 2019			
Loans with renegotiated terms	**Business**	**Private**	**Total**
Carrying amount	177,884	3,861	181,745
Credit loss allowance	(76,859)	(1,759)	(78,618)
Net carrying amount	**101,025**	**2,102**	**103,127**
Loans with renegotiated terms			**2019**
Stage 1			-
Stage 2			22,734
Stage 3			159,011
Total gross amount			**181,745**
Individual impairment			137,041
Collective impairment			44,704
Net loans			**181,745**

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:

	2020	**%**	**2019**	**%**
Business Trade	11,153,572	42%	9,925,682	42%
Business Production	7,454,959	28%	6,267,113	27%
Business Other	5,047,847	19%	4,378,946	19%
Business Agriculture	821,631	3%	652,276	3%
Business Transport	564,724	2%	475,028	2%
Private Housing	1,531,374	6%	1,610,802	7%
Private Investment	86,513	0%	83,270	0%
Private Other	59,819	0%	58,210	0%
Total	**26,720,439**	**100%**	**23,451,326**	**100%**

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**	**245,256**
Private Housing	**1,268,040**	**149,508**	**113,826**
Private Investment	**72,504**	**11,703**	**2,306**
Private Other	**44,393**	**15081**	**345**
Total	**23,539,094**	**1,637,606**	**1,543,739**

2019			
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	**8,964,356**	**674,862**	**286,464**
Business Agriculture	**449,967**	**135,100**	**67,208**
Business Production	**5,142,863**	**739,180**	**385,070**
Business Transport	**240,064**	**1,012**	**233,951**
Business Other	**3,873,305**	**172,912**	**332,729**
Private Housing	**1,418,384**	**76,087**	**116,331**
Private Investment	78,290	636	4,343
Private Other	**57,161**	**235**	**814**
Total	20,224,390	1,800,025	1,426,912

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2020 along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2020		2019	
	Gross outstanding amount	**Fair value of collateral**	**Gross outstanding amount**	**Fair value of collateral**
Business Trade	417,377	241,822	286,464	147,454
Business Agriculture	103,432	34,051	67,208	34,895
Business Production	420,961	154,415	385,070	129,537
Business Transport	240,236	63,897	233,951	99,723
Business Other	245,256	75,599	332,729	152,159
Private Housing	113,826	95,104	116,331	81,768
Private Other	2,650	-	5,158	-
Total	**1,543,738**	**664,888**	**1,426,912**	**645,536**

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 2020, the ten largest borrowers represent 12.33% (2019: 12.83%) 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:

17. Loans and advances to customers (continued)

- 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.

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 › 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 LGD of the exposures is measured based on the size of the exposure where Very Small is below 50K, Small 50K to 250K and Medium above 250K and for the very small exposures is based on days in arrears (exposures below 30K) as these exposures are mainly without collateral. The table below shows the average LGD for different segments of the portfolio applied on all stages.

Exposure size class	B30K Exposure	Days in arrears	Average LGD
Medium	**not relevant**	not relevant	42.36%
Small	**not relevant**	not relevant	44.38%
	EUR 30K to 50K	greater ›180 days	44.18%
Very small		lower than 180 days	44.18%
	Less than EUR 30K	greater ›180 days	100.00%
		lower than 180 days	44.18%

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 / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The smaller the outstanding amount, the higher the number of days in arrears and the greater the uncertainties surrounding recoveries (such as an unpredictable legal environment) are, the smaller will be the chances of recovery by the Bank. Repayments of loans previously written off amounted to ALL 50,782 thousand in 2020 (2019: ALL 59,092 thousand).

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 28).

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,

17. Loans and advances to customers (continued)

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 2020.

31 December 2020	Over-collateralised assets		Under-collateralised assets	
	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

31 December 2019	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	593,596	2,823,235	19,431,722	8,503,617
Private	391,191	2,898,109	1,740,871	756,486
	984,787	5,721,344	21,172,593	9,260,103

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.

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 2020 and 2019. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2020			2019		
	OECD countries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks	-	4,515,050	**4,515,050**	-	1,980,058	**1,980,058**
Loans and advances to banks	2,525,043	531,940	**3,056,983**	3,014,192	-	**3,014,192**
Loans and advances to customers	-	25,298,202	**25,298,202**	-	22,157,380	**22,157,380**
Debt securities held at fair value through other comprehensive income	-	-	**-**	-	2,288,243	**2,288,243**
Debt securities held at Amortized Cost (AC)	-	1,293,444	**1,293,444**	-	-	**-**
Other financial assets	-	369,857	**369,857**	-	266,352	**266,352**
Total	**2,525,043**	**32,008,493**	**34,533,536**	**3,014,192**	**26,692,033**	**29,706,225**

Loans and advances to customers based on specific industry sectors at 31 December 2020 and 2019 are presented below:

31 December				
Industry sector	**2020**	**%**	**2019**	**%**
Trade	12,162,265	48	10,833,175	49
Industry and other production	7,806,168	31	6,555,968	30
Construction	1,221,397	5	867,948	4
Transport	453,906	2	369,532	2
Services	1,454,511	6	1,298,669	6
Other	2,199,955	9	2,232,087	10
Total	**25,298,202**	**100**	**22,157,380**	**100**

18. Investment securities measured at amortised cost (2019 FVOCI)

Investment securities measured at amortised cost (2019 FVOCI) are comprised of treasury bills and bonds presented as follows:

	2020	2019
	Amortised Cost	FVOCI
Treasury bills measured at FVOCI	-	1,930,211
Treasury bills at AC	1,293,978	-
Bonds measured at FVOCI	-	358,032
Total	**1,293,978**	**2,288,243**

The movement in investments securities is summarised as follows:

	2020	2019
At 1 January	2,288,243	1,632,594
Additions	1,293,978	1,930,212
Loss allowance for Investment Securities AC	(534)	-
Matured	(2,288,243)	(1,257,170)
Change in accrued interest	-	(17,393)
Total	1,293,444	2,288,243

Fair value gains/ (losses) arising during the year may be summarised as follows:

	2020	2019
At 1 January	(21,707)	(23,067)
Additions	36,860	6,665
Disposals (reclassified to profit or loss)	(9,517)	(3,511)
Net (disposals)/additions	27,343	3,154
Total at 31 December, before income tax	**5,636)**	**(19,913)**
Deferred tax on the revaluation reserve of Investment securities measured at FVOCI	(4,101)	(473)
Revaluation reserve loss allowance of FVOCI	(1,535)	(1,321)
Revaluation reserve for Investment securities measured at FVOCI	**-**	**(21,707)**

18. Investment securities measured at AC (2019 FVOCI) (continued)

Treasury bills

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

	2020			2019		
Issuer	*Maturity*	*Yield*	*Carrying value*	*Maturity*	*Yield*	*Carrying value*
Albanian government	12 months	1.87% - 2.25%	1,293,978	12 months	1.05% - 2.05%	1,930,211
			1,293,978			**1,930,211**

Fair value for foreign bond in EUR has been based on market prices of similar instruments or broker/dealer price quotations.

The table below contains an analysis of the credit risk exposure of debt securities measured at AC at 31 December 2020. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.59% and LGD of 30%.

Movement in impairment for the years ended December 31, 2020 and 2019, charged to profit and loss is as following:

	31-Dec-20	31-Dec-19
Opening balances	1,535	2,856
New financial assets originated	**534**	**1,433**
Release due to derecognition	(1,535)	(2,229)
Increase/Decrease in PD/LGD/EaD	**-**	**(525)**
Closing balance	534	1,535

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	2020	2019
Securities at Amortised Cost		
B+	1,293,978	-
Securities measured at fair value through other comprehensive income		
B+	-	2,288,243
Total	1,293,978	2,288,243

19. Other assets

	2020	2019
Current assets		
Other debtors	369,857	266,352
Other financial assets	369,857	266,352
Prepaid expenses	30,449	22,822
Inventory	1,951	786
Shares	196	193
Non current assets		
Repossessed properties	175,862	228,859
Loss allowance for account receivables	(7,535)	(2,299)
Total	570,779	516,712

Movement in impairment for the years ended December 31, 2020 and 2019, charged to profit and loss is as following:

	31-Dec-20	31-Dec-19
Opening balances	2,299	6,595
Release due to derecognition	**-**	**(6,595)**
Increase/Decrease in PD/LGD/EaD	5,236	2,299
Closing balance	7,535	2,299

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 7 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:

	2020	2019
Balance at the beginning of the period	228,859	615,435
Additions during period	-	26,406
Disposals during the period	(33,535)	(187,561)
Impairment allowance	(9,973)	(228,395)
Reversal of impairment	-	22,470
Write downs	(9,489)	(19,497)
Balance at the end of the period	175,862	228,859

20. Investment property

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

	Investment property
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	-
Impairment	-
At 31 December 2020	**2,787**
At 1 January 2019	**95,710**
Additions	-
Disposals	(80,161)
At 31 December 2019	**15,549**
Accumulated depreciation	(60,728)
Charge for the year	(1,134)
Accumulated depreciation at time of disposal	11,904
Reversal of Impairment	37,583
At 31 December 2019	**3,175**

21. Premises and equipment

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 1 January 2020	750,443	681,812	45,933	-	1,478,188
Additions	4,588	22,021	71,889	-	98,499
Disposals	(791)	(31,284)	(47,276)	-	(79,351)
Impairment	-	-	-	-	-
Total acquisition cost as of 31 December 2020	**754,240**	**672,550**	**70,546**	**-**	**1,497,336**
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**

31-December-19	Land and buildings	Business and office equipment	Land and buildings (ROU)	Business and office equipment (ROU)	Total PPE
Total acquisition cost as of 1January 2018	1,020,534	745,860	-	-	1,766,394
First time adoption of IFRS 16	-	-	39,730	-	39,730
Additions	586	5,669	13,712	-	19,967
Disposals	(13,612)	(69,716)	(7,508)	-	(90,837)
Impairment	(257,065)	-	-	-	(257,065)
Total acquisition cost as of 31 December 2019	**750,443**	**681,812**	**45,933**	**-**	**1,478,188**
Accumulated depreciation as of 1 January 2018	214,758	545,140	-	-	759,898
Charge for the year	25,023	54,969	20,822	-	100,813
Disposals	(12,436)	(50,086)	(1,652)	-	(64,174)
Accumulated depreciation as of 31 December 2019	**227,345**	**550,023**	**19,170**	**-**	**796,538**
Net carrying amount	**523,098**	**131,789**	**26,763**	**-**	**681,651**

22. Intangible assets

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**

At 1 January 2019	297,799
Additions	2,670
Disposals	(93,814)
Transfer	-
At 31 December 2019	**206,655**
Accumulated depreciation at 1 January 2019	(243,731)
Charge for the year	(18,319)
Accumulated depreciation at time of disposal	87,509
Accumulated depreciation at 31 December 2019	(174,541)
Net book value at 31 December 2019	**32,114**

23. Due to banks

	2020	2019
Borrowings from resident banks	347,541	534,850
Borrowings from non-resident banks	3,727,999	2,878,268
Current accounts from resident banks	-	13,776
Total	**4,075,540**	**3,426,893**

Borrowings from resident banks have maturities as at December 31, 2020 up to 14 days and interest rates of 0.00%, 0.65% for balances denominated in ALL.

Borrowings from non-resident banks have maturities as at December 31, 2020 up to 3 years (2019: up to 4 years) and interest rates of 0.664%, 0.845%, 1.105% 1.217%,1.44%, 1.59% and 1.92% for balances denominated in EUR (2019: 0.00%, 0.942%, 1.19% and 1.92% p.a for EUR).

24. Due to customers

	2020	2019
Current accounts		
Foreign currency	**5,140,077**	**4,562,242**
Local currency	3,576,821	2,787,532
Savings accounts		
Foreign currency	2,416,333	1,840,016
Local currency	**1,968,899**	**1,265,858**
Term deposits		
Foreign currency	**4,120,430**	**3,991,492**
Local currency	6,555,707	6,865,702
Other customer account		
Foreign currency	70,660	89,971
Local currency	73,114	137,876

Savings accounts in ALL (FlexSave) bear interest at 0.8% p.a (2019: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2019: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2019: 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 2020 were as follows:

(in %)	12 months	24-36 months
ALL	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

31 December 2019		
(in %)	**12 months**	**24-36 months**
ALL	1.10 - 2.20	1.80 - 2.10
EUR	0.40 - 0.80	0.40 - 0.50
USD	1.0 - 2.10	1.10 - 1.20

25. Subordinated debt

	2020	2019
Subordinated Debt		
ProCredit Holding	865,900	852,390
Accrued interest	13,050	12,986
Total	**878,950**	**865,376**

On 30 August 2019, the Bank received from ProCredit Holding AG & Co. KGaA a subordinated debt of EUR 7 million, bearing a variable interest rate and maturing on 30 August 2029. The interest is payable on a semi-annual bases and the principal is payable on maturity date. In the same period the previous subordinated loan is prepaid.

26. Other liabilities

	2020	2019
Payments in transit	61,492	59,300
Sundry creditors	78,723	67,783
Accrued expenses	20,483	16,938
Lease liabilities	31,243	26,828
Other financial liabilities	**191,941**	**170,850**
Tax and social charges	18,297	12,065
Other provisions	52,511	40,023
Deferred fee income	8,529	7,745
Total	**271,278**	**230,683**

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 2020 and 2019 is presented below:

26. Other liabilities (continued)

	Off-balance sheet items	Legal cases	Staff terminations	Other	Total
Balance as at 1 January 2019	29,292	15,505	1,648	2,870	49,315
Provisions made during the year	15,895	1,285	-	12,402	29,582
Provisions reversed during the year	(29,292)	(5,065)	(1,648)	(2,870)	(38,875)
Balance as at 31 December 2019	**15,895**	**11,726**	**-**	**12,402**	**40,022**
Provisions made during the year	31,032				31,032
Prov. reversed during the year	(15,895)	(1,487)		(1,161)	(18,543)
Balance as at 31 December 2020	**31,032**	**10,239**	**-**	**11,241**	**52,511**

27. Share capital and legal reserves

At 31 December 2020, the authorised and issued share capital of the Bank was comprised of 523,661 (2019 456,003) shares with a value of EUR 38,698,548 (2019 EUR 33,698,622). In November 2020 the bank increased its share capital by EUR 4,999,926, translated in ALL 618,540,870 using exchange rate equal to 123.71. 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 EUR	%
ProCredit Holding	523,661	38,698,548	100
	523,661	**38,698,548**	**100**

Share Capital	At 1 January 2020	New shares issued	At 31 December 2020
Number of outstanding shares	456,003	67,658	523,661
Share capital	**33,698,622**	**4,999,926**	**38,698,548**

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".

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of Investment securities measured at FVOCI, until the investment is derecognised, or impaired. The movements in the fair value reserve are presented in note 18.

28. Commitments and contingencies

	2020	2019
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	2,311,471	1,759,520
International guarantees	671,724	407,711
Local guarantees	507,215	542,960
Letters of credit	109,003	35,292
Less: Provisions recognised as liabilities	(31,032)	(15,895)
Total	**3,568,381**	**2,729,588**
Credit commitments		
Unused credit card facilities	4,571	-
Unused overdraft limits	1,235,977	1,110,835
Non-disbursed loans tranches	-	-
Unused portion of credit lines	1,070,923	648,686
Total	**2,311,471**	**1,759,520**

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 2020.

28. 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 2020 is remote, except the cases the provision was recorded as shown in note 26.

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

Commitments by credit quality based on credit risk grades at 31 December 2019 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	922,926	18,266	9,480	950,671
Letters of credit	32,196	3,096		35,292
Total Guarantees and Letter of Credits	955,122	21,361	9,480	985,963
Loans commitments not yet disbursed	1,739,990	17,095	2,435	1,759,520
Total credit related commitments	2,695,112	38,456	11,915	2,745,483
Provision for guarantees and Letter of Credits	(4,552)	(54)	(6,373)	(10,978)
Provision for loan commitments	(3,974)	(530)	(412)	(4,916)
Total commitments	2,686,586	37,872	5,130	2,729,588

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.

29. 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 2020, were ALL 37,650 thousand (2019: ALL 41,600 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 2020 and 2019 are presented below:

29. Related party transactions (continued)

	Relationship	2020	2019
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities under common control	2,515,616	2,416,770
Financial assets due from other ProCredit banks		10,511	4,526
		2,526,127	2,421,296
Liabilities due to:			
Due to other ProCredit banks - Senior Loans	Entities under common control	3,727,999	2,878,268
Financial liabilities to other ProCredit banks		1,273	1,425
Financial liabilities to Quipu GmbH		10,978	11,424
Due to ProCredit Holding AG & Co. KGaA - Senior Loans	Parent Company	2,923,878	2,942,902
Subordinated debt from ProCredit Holding AG & Co. KGaA		878,950	865,376
		7,543,078	6,699,395

	Relationship	2020	2019
Income from:			
Interest income from ProCredit banks	Under common control	(10,262)	(7,163)
The Parent: Other income	Parent company	6,604	4,172
		(3,658)	(2,991)
Expenses:			
The Parent: Interest expenses for subordinated debt & senior loans	Parent Company	76,263	85,406
ProCredit Banks: Interest expenses for senior loans		41,291	43,213
The Parent & banks: Other administrative expenses		57,214	65,003
The Parent and academies: Training expenses		16,806	17,844
ProCredit Banks: commitment fees		17,136	16,512
Quipu GmbH: IT services	Under common control	242,394	218,350
Quipu GmbH: Card processing fees		12,161	13,150
		463,265	**459,478**

Key management remuneration:

	2020	2019
Salaries	34,452	36,666
Short-term pension contribution (mandatory scheme)	**2,030**	**2,257**
Total	36,482	38,923

30. 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 disclosure in relation to:

The Bank has signed on December 18, 2020 a financing agreement with EBRD in the amount of EUR 10 million that will be executed in tranches during 2021.
On the date of signing financial statements, only the first tranche is disbursed on February 17, 2021 in amount of EUR 5 million (in ALL 617,850,000, using the exchange rate equal to 123.57) and is classified as other borrowing funds.

Contact Addresses

Head Office

ProCredit Bank sh.a.
Place of Registration: Tiranë
No. of Court Regist: 20797/11.02.1999
KIB: 20911005
Nipt: J 91524011J
Legal address: Rr. "Dritan Hoxha". Nd. 92, H. 15, Njësia Bashkiake Nr. 11,Tirana.
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Branches

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Agencies and 24/7 Zones

Head Office Agency, 24/7 Zone
Rr. "Dritan Hoxha"
Nd. 92, H. 15, Njësia Bashkiake Nr. 11,
Kodi Postar 1026, Tiranë

Piazza Agency, 24/7 Zone
Rr. "Ded Gjo Luli ", pranë Muzeut Kombëtar,
Tiranë

Kombinati Agency, 24/7 Zone
Rr. "Llazi Miho" Nd.95 H. 7
Njësia Bashkiake Nr. 6 Kodi Postar 1027, Tiranë

Durrësi Porti Agency, 24/7 Zone
Lagjia Nr. 4, Autostrada Egnatia,
Pallatet Xhemf, Godina Nr.13, Kati 0

Korça Agency, 24/7 Zone
Rruga "Midhi Kostani", Korçë

Shkodra Agency, 24/7 Zone
Bulevardi "Zogu I", Nr. 7, Shkodër

As at 31 December 2020