ProCredit Bank
Albania

Annual Report 2019

Key Figures

	EUR '000		ALL '000	
	2019	2018	2019	2018
Balance Sheet Data				
Total Assets	262,397	258,996	31,952,136	31,965,255
Gross Loan Portfolio	192,587	194,795	23,451,326	24,041,608
Business Clients Loan Portfolio	178,197	178,801	21,699,045	22,067,578
Private Clients Loan Portfolio	14,390	15,994	1,752,281	1,974,030
Loan Loss Provision	(10,626)	(13,888)	(1,293,946)	(1,714,046)
Net Loan Portfolio	181,961	180,907	22,157,380	22,327,562
Customer Deposits	176,897	167,487	21,540,689	20,671,213
Liabilities to Banks and Financial Institutions (excluding PCH)	4,505	4,912	548,625	606,204
Total Equity	24,190	25,388	2,945,593	3,133,342
Income Statement				
Operating Income	5,823	5,541	716,258	706,939
Operating Expenses	11,075	9,878	1,362,249	1,260,186
Operating Profit Before Tax	(6,523)	(5,670)	(802,302)	(723,394)
Net Profit	(6,523)	(6,141)	(802,302)	(783,528)
Key Ratios				
Cost/Income Ratio	190.19%	178.26%		
Return on Equity (ROE)	-26.39	-21.31%		
Capital Ratio	15.45%	13.75%		
Operational Statistics				
Number of Clients	12,660	21,002		
of which Business Clients	906	975		
Number of Loans Outstanding	2,635	3,494		
Number of Deposit Accounts	37,940	40,224		
Number of Staff	111	143		
Number of Branches and Outlets	6	6		

Exchange rate as of December 31:
2019: EUR 1 = ALL 121.77
2018: EUR 1 = ALL 123.42

Average exchange rate for the period:
2019: EUR 1 = ALL 123.00
2018: EUR 1 = ALL 127.58

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 have the capacity to save and who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

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

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

Members of Management Board as of 31st December 2019 are:

- *Mirsad Haliti*
- *Agan Azemi*

Board of Directors members as of December 2019 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 15 July 2010, 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 15 748 255. 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 provides financial services to small and medium-sized businesses and private individuals, and thus contributes to the economic development of its clients. 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. As a matter of principle, the Bank does not engage in proprietary trading and does not enter any speculative positions for the purpose of generating potential additional income. Therefore, it is strictly a non-trading book institution. The overall orientation is geared towards, stability particularly with regard to the earnings situation and the risk profile of the bank.

The bank's risk risk appetite is expressed, among other things, in the following business policy principles:

- Responsible banking for development
- Focus on core business: the provision of financial services to small and medium-sized businesses
- 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 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

The risk management of the bank greatly benefits from the group's experience that was gained over the past 20 years in the markets of operation. ProCredit Bank Albania, being part of ProCredit group, adheres to international best practices in the area of risk management.

The bank performs on yearly bases the risk inventory process. The risk inventory is the instrument to identify the material risks the bank is exposed to, thus to show the overall risk profile. It forms the basis of the risk management system of the ProCredit Bank. This inventory and the identified material risks are subject of review and approval from the Risk Management Committee of the Bank, as well as it is sent to the responsible structures at ProCredit Holding. All the identified material risks are included in the risk management framework of the Bank, as well as are included in the Internal Capital Adequacy Assessment Process.

The management defined the bank's risk appetite based on the internal capital adequacy (ICAAP). The guiding principle is that the bank may not, at any time, incur greater risks than it is able to bear, thus to ensure capital adequacy at all times. 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 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 the Group and the Central Bank. The table below reflects the maximum risk appetite with respect to the normative perspective.

%	Group (CRR)		Local (CB)
	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; the RAtCR are not divided up according to mathematical formulae, but rather reflect our business model and are based on our understanding of our market, developed over the years.

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, and country 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 a 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 our clients often have short maturities and as the local financial market offers no mechanisms for hedging the interest rate risk, acceptance of interest rate risk by the banks 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 is obliged to keep closed currency positions, it is impossible to avoid currency risks in specific circumstances. Therefore, this risk is assigned a share of 2% of RAtCR.

Furthermore, a 40% buffer of the RAtCR is intended to cover other risks, such as Funding, Business and Income.

Financial Statements

For the year ended 31 December 2019 .
Prepared in accordance with International Financial Reporting Standards.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Procredit Bank Sha,

Opinion

We have audited the financial statements of ProCredit Bank Sha (the Bank), which comprise the statement of financial position as at December 31, 2019, 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, 2019, 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.

Emphasis of Matter

We draw attention to Note 30 to these financial statements describing management's evaluation of the actual or potential impact of the effects of the COVID-19 on the Bank. Our opinion is not modified in respect of this matter.

Other matter

The financial statements of the Bank as at and for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on July 3, 2019.

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 information provided in the Performance Activity Report and Internal Management Report, prepared by the Management in accordance to Article 17 and 19 of Law 25/2018, date January 19, 2019 "On Accounting and Financial Statements", amended, but does not include the financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditors' report. Our opinion on the financial statements does not cover the other information and we do 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.

Deloitte Audit Albania Sh.p.k

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Statutory Auditor
Enida Cara

June 30, 2020
Tirana, Albania

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2019

		In ALL'000 31 December		In EUR'000 31 December	
	Notes	2019	2018	2019	2018
Assets					
Cash and balances with Central Bank	15	3,170,308	5,951,907	26,035	48,225
Loans and advances to financial institutions	16	3,014,192	19,020	24,753	154
Loans and advances to customers	17	22,157,380	22,327,562	181,961	180,907
Investment securities measured at FVOCI	18	2,288,243	1,632,790	18,792	13,230
Deferred income tax assets	14	4,101	4,575	34	37
Corporate income tax receivable		84,260	84,260	692	683
Other assets	19	516,712	849,595	4,243	6,884
Investment property	20	3,175	34,982	26	283
Premises and equipment	21	681,651	1,006,496	5,598	8,155
Intangible assets	22	32,114	54,068	264	438
Total assets		**31,952,136**	**31,965,255**	**262,397**	**258,996**
Liabilities					
Due to banks	23	3,426,893	3,821,376	28,142	30,962
Due to customers	24	21,540,689	20,671,213	176,897	167,487
Other borrowed funds		2,942,902	3,474,113	24,168	28,149
Other liabilities	26	190,660	179,158	1,566	1,452
Other Provisions	26	40,023	49,315	329	400
Subordinated debt	25	865,376	636,738	7,107	5,159
Total liabilities		**29,006,543**	**28,831,913**	**238,208**	**233,608**
Shareholders' equity					
Share capital	27	4,377,075	3,763,884	35,945	30,497
Accumulated deficit/	27	(2,117,886)	(1,315,585)	(17,327)	(10,639)
Legal reserves	27	708,110	708,110	5,815	5,737
Currency translation reserve		-	-	(66)	(20)
Revaluation reserve for investment securities measured at FVOCI	18	(21,707)	(23,067)	(178)	(187)
Total shareholders' equity		**2,945,593**	**3,133,342**	**24,190**	**25,388**
Total liabilities and shareholders' equity		**31,952,136**	**31,965,255**	**262,397**	**258,996**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 2).

These financial statements have been approved by Management on 29 June 2020 and signed on their behalf by:

Mirsad Haliti
Member of the Management Board

Agan Azemi
Member of the Management Board

ProCredit Bank sh.a. ... Tiranë

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 60.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

			In ALL '000		*In EUR '000*
	Notes	**2019**	**2018**	**2019**	**2018**
Interest income	9	1,072,602	1,444,349	8,720	11,321
Interest expense	9	(282,900)	(250,711)	(2,300)	(1,965)
Net interest income		**789,702**	**1,193,638**	**6,420**	**9,356**
Allowance for expected credit losses	18	(213,822)	(379,777)	(1,738)	(2,977)
Net interest income after provision for impairment of loans		**575,880**	**813,861**	**4,682**	**6,379**
Fee and commission income	10	260,368	320,924	2,117	2,515
Fee and commission expense	10	(108,994)	(112,610)	(886)	(883)
Other operating income	11	156,931	162,493	1,276	1,274
Foreign exchange translation gains less losses		83,436	(83,530)	678	(653)
Personnel expense	13	(310,052)	(366,220)	(2,521)	(2,871)
Other operating expenses	12	(1,459,871)	(1,458,312)	(11,869)	(11,431)
Loss before income tax		**(802,302)**	**(723,394)**	**(6,523)**	**(5,670)**
Income tax expense/(credit)	14	-	(60,134)	-	(471)
Loss for the year		**(802,302)**	**(783,528)**	**(6,523)**	**(6,141)**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities measured at FVOCI		1,833	1,814	15	14
Deferred tax	14	(473)	(272)	(4)	(2)
Total comprehensive loss for the year		**(800,942)**	**(781,986)**	**(6,512)**	**(6,129)**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 2).

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 60.

Statement of Changes in Equity

For the year ended 31 December 2019

In ALL'000	Share Capital	Legal Reserves	Revaluation Reserve/(Deficit)	Retained Earnings/ Accumulated deficit	Total
Balance at 1 January 2018	**3,387,148**	**708,110**	**(27,464)**	**221,320**	**4,289,114**
Increase in Paid Up Capital	376,736	-	-	-	376,736
Impact of new or revised accounting standards	-	-	-	(753,377)	(753,377)
Investment securities measured at FVOCI	-	-	4,669	-	4,669
Deferred tax	-	-	(272)	-	(272)
Profit (loss) for the year	-	-	-	(783,528)	(783,528)
Total comprehensive loss	**-**	**-**	**4,397**	**-**	**4,397**
Balance at 31 December 2018 as previously reported	**3,763,884**	**708,110**	**(23,067)**	**(1,315,585)**	**3,133,343**
Balance at 1 January 2019	**3,763,884**	**708,110**	**(23,067)**	**(1,315,585)**	**3,133,343**
Increase in Paid Capital	613,191	-	-	-	613,191
Debt securities at fair value through other comprehensive income	-	-	1,833	-	1,833
Deferred tax	-	-	(473)	-	(473)
Profit (loss) for the year	-	-	-	(802,302)	(802,302)
Total comprehensive loss	**-**	**-**	**1,360**	**-**	**1,360**
Balance at 31 December 2019	**4,377,075**	**708,110**	**(21,707)**	**(2,117,887)**	**2,945,593**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 2 (e)).

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 60.

Statement of Cash Flows

For the year ended 31 December 2019

	Note	In ALL'000 2019	In ALL'000 2018	In EUR'000 2019	In EUR'000 2018
Cash flows from operating activities					
Loss before income tax		(802,302)	(723,394)	(6,523)	(5,670)
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of premises and equipment and investment property	20	101,947	110,538	829	896
Amortization of intangible assets	2	18,319	27,352	149	222
Impairment of Fixed assets	21	257,065	-	2,090	-
Impairment charge for credit losses	17	213,821	379,777	1,738	3,077
Interest income	9	(1,072,602)	(1,444,349)	(8,720)	(11,703)
Interest expense	9	282,900	250,711	2,300	2,031
Loss/(gain) on disposal of assets		13,103	(8,913)	107	(70)
Charge of other provisions		375,400	136,972	3,052	1,110
Income tax credited		-	(29,106)	-	(236)
		(612,349)	**(1,300,412)**	**(4,979)**	**(10,343)**
Changes in operating assets and liabilities:					
Loans and advances to financial institutions and compulsory res.		(103,866)	451,484	(853)	3,658
Loans and advances to customers	17	(115,496)	(712,970)	(948)	(5,777)
Other assets	19	(53,692)	106,216	(441)	861
Repossessed property		(26,407)	230,345	(217)	1,866
Due to banks	23	(404,911)	938,901	(3,325)	7,607
Due to customers	24	874,889	(3,344,056)	7,185	(27,095)
Other liabilities	26	2,684	(181,952)	22	(1,474)
		(439,148)	**(3,812,444)**	**(3,556)**	**(30,697)**
Interest received		1,161,850	1,481,092	9,541	12,000
Interest paid		(286,145)	(259,088)	(2,350)	(2,099)
Income tax paid		-	-		-
Net cash used in operating activities		**436,557**	**(2,590,440)**	**3,635**	**(20,795)**
Cash flows from investing activities					
Acquisition of Investment securities measured at FVOCI		(1,933,943)	(1,632,790)	(15,882)	(13,230)
Proceeds from matured Investment securities measured at FVOCI		1,262,458	1,830,941	10,368	14,835
Proceeds from sale of premises and equipment		81,817	95,740	672	776
Acquisition/disposal of intangible assets		3,636	-	30	-
Acquisition/disposal of premises and equipment		(59,697)	(46,862)	(490)	(380)
Net cash from investing activities		**(645,729)**	**247,029**	**(5,303)**	**2,002**
Cash flows from financing activities					
Issue/Repayment of subordinated debt		235,290	(47,650)	1,932	(386)
Capital Increase		613,191	376,737	5,036	3,052
Dividend paid		-	-	-	-
Other borrowed funds		(529,602)	1,592,581	(4,349)	12,904
Net cash used in financing activities		**318,879**	**1,921,668**	**2,619**	**12,518**
Translation differences		-	-	408	5,536
Decrease in cash and cash equivalents		**109,707**	**(421,743)**	**1,359**	**(740)**
Cash and cash equivalents at beginning of the year		**4,179,206**	**4,600,949**	**33,862**	**34,602**
Cash and cash equivalents at end of the year	15	**4,288,913**	**4,179,206**	**35,221**	**33,862**

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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 60.

Notes to the Financial Statements
For the year ended 31 December 2019
(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 2019 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 2019 and 2018, 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 2019 the Bank was operating from Head Office in Tirana, 1 branch, 4 service points- 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 2019 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.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of investment securities measured at FVOCI. 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.

The Bank's CAR (capital adequacy ratio) at 31 December 2019 was 15.45% while the required minimum CAR for banks in Albania is 12%. During the year ended 31 December 2019, the Bank incurred losses of ALL 2,117,886 thousand. Management expects that the Bank will generate positive results starting from the year ending 31 December 2020 and continue to meet the minimum CAR requirements and continue as a going concern for the foreseeable future. Support from the Group is also available on a need basis. In August 2019, the Group increased subordinated debt by an additional EUR 2,000 thousand and in December 2019, the group increased share capital EUR 5,000 thousand. As such, management believes that going concern basis of preparation is appropriate, despite the material uncertainty caused by the Bank's net operating results as at December 31, 2019.

The Bank has no intention to liquidate or cease its operations during the year 2019. Management expects the Bank to be profitable in the future, and its ability to continue as going concern will not be impaired.

- The rapid development of the Covid-19 virus and its social and economic impact in Albania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining expected credit losses from the credit facilities granted to SME customers that operate in hotel and tourism services.
- The management of the Bank expects that the assumptions and estimates used in determining the fair values of the level 3-financial assets (sovereign debt securities) to be affected due to fluctuations in the market interest rates. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer term impact may also affect lending volumes, cash flows and profitability. Nevertheless at the date of these financial statements the Bank continues to meet its obligations as they fall due.
- The Bank had the necessary infrastructure to overcome the operational disruption imposed by the pandemic situation considering the logistic measures taken for the administrative staff to follow the work remotely. Whilst the branches were allowed to continue operations but with certain limitations concerning the available timing for customer service. Therefore, the customers are encouraged to use mobile banking for the major part of their transactions. Furthermore, the Government is considering to extend the daily time limits for the banks to offer the customer services.
- Albanian Government offered a guarantee fund to support with credit by banks those companies that have difficulties to pay the monthly salaries to their employees. The Bank has the possibility to largely use this instrument, with a rather positive, flexible and proactive approach. The purpose is that many people benefit from this guarantee, as the credit accorded for this purpose is considered to have practically zero risk, due to the guarantee by the sovereign. Meanwhile, the ample liquidity owned by the banking system, currently provides banks with the possibility to actively participate in the auctions of the Albanian Government securities, by supporting the needs that the Government has in this period, and simultaneously, it may be considered an investment opportunity to the system itself, as lending has experienced difficulties. The Bank relies also on the support from its Group.

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 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 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. The Bank did not change its business model during the current period and did not make any reclassifications.

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

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL depending on the results of the 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.

Performance guarantees. Performance guarantees are contingent liabilities of the bank that are issued to a customer in favor of a third party (business partner, another bank etc. of the customer) to ensure the fulfillment of the customer's contractual obligations to the explicit third party in case the customer himself fails to satisfy the explicit obligation.

As per IAS37 a contingent liability is:

- A possible obligation depending on whether some uncertain future events occurs, or
- A present obligation but payments is not probable or the amount cannot be measured reliably

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance 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 contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

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

Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both. Investment property includes assets for future use as investment property.

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

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.

Operating leases

The Bank applies IFRS 16 retrospectively using the modified retrospective approach. At the time of initial application, there were no effects on the opening balance of retained earnings. The bank applies the definition of a lease under IFRS 16 for all agreements at the date of initial application. There are no leases that were previously classified as finance leases. Leases with a term ending less than 12 months after the date of initial application are treated as short-term leases and are not recognised in the balance sheet. For contracts with extension and termination options, the term of the lease was determined retrospectively. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019.

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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.

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.

When managing the foreign exchange position the Bank also takes into consideration the fact that equity is denominated in EUR.

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.

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.

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 2019 has been translated at the official rate of BOA as at 31 December 2019 of ALL 121.77 to EUR 1 (2018: 123.42). 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 123.00 (2018: EUR 1: ALL 127.58).

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

3. Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

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

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

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

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

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.

On transition to IFRS 9, the Bank identified available for sale (AFS) securities as a liquidity portfolio and classified as held to collect and sell.

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. The de recognition 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.

COVID 19 - The rapid development of the Covid-19 virus and its social and economic impact in Albania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining account receivables and other assets, non-current assets and liabilities to be affected. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer term impact may also affect trading volumes, cash flows, and profitability. Nevertheless at the date of these financial statements the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation

4. Adoption of new and revised International Financial Reporting Standards

4.1 Standards and interpretations effective in the current period

- **IFRS 16 Leases**

In the current year, the Bank has applied IFRS 16 that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS17 and IFRIC4

a) *Impact of the new definition of the lease*

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 has changed how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank has:

- Recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognised depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss

Separate the total amount of cash paid into a principal portion (presented within financing activities) an interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Bank has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.

- The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The Bank as of the year end does not have sub-leases for its leases recognized as right-of-use assets.

d) Financial impact of initial application of IFRS 16

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 4.68%.

The Bank has recognised ALL 39.7 million of right-of-use assets and ALL 39.7 million of lease liabilities upon transition to IFRS 16. The net impact in retained earnings is zero.

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording** (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

4.2 Standards and interpretations in issue not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **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 to asset acquisitions that occur 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 Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material** (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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 (except of IFRS 16 as disclosed below) 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.

(a) 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 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 2019	31 December 2018
Cash and balances with Central Bank	1,976,980	4,927,618
Loans and advances to banks and other financial institutions	3,014,192	19,020
Loans and advances to customers:		
Business Trade	9,579,584	9,684,358
Business Agriculture	589,518	732,505
Business Production	5,862,747	6,120,739
Business Transport	363,889	592,676
Business Other	4,128,307	3,386,591
Private Housing	1,499,548	1,701,059
Private Investment	77,856	66,874
Private Other	55,931	42,760
	22,157,380	**22,327,562**

	31 December 2019	31 December 2018
Securities at fair value through other comprehensive income	2,288,243	1,632,790
Other financial assets	266,352	155,776
Total	**2,554,595**	**1,788,566**
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	1,759,520	1,387,411
Financial guarantees	985,963	1,028,129
Total	**2,745,483**	**2,415,540**

Off balance sheet	31 December 2019	31 December 2018
Credit commitments	1,759,520	1,387,411
Financial guarantees	950,671	872,558
Letters of Credit	35,292	155,571
Provisions recognised as liabilities	(15,895)	(29,292)
Total	**2,729,588**	**2,386,248**

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.

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

Based on these indicators, the exposures are classified to stages.

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

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.

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.

5. Financial risk management (continued)

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. 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 for the remaining of the loan portfolio

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):

	2019	2018
USD	108.64	107.82
EUR	121.77	123.42
GBP	143.00	137.42
CHF	112.30	109.60
CNY	15.61	15.68

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2019 and 2018, translated into ALL'000.

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**

31 December 2018	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,686,542	3,841,309	420,188	3,869	5,951,908
Loans and advances to banks	-	-	19,020	-	19,020
Investment securities measured at FVOCI	1,632,594	196	-	-	1,632,790
Loans and advances to customers	9,862,954	11,842,495	622,113	-	22,327,562
Other financial assets	(29,792)	144,880	34,484	6,202	155,774
Total Financial Assets	**13,152,298**	**15,828,879**	**1,095,805**	**10,071**	**30,087,054**
Liabilities					
Due to banks	39,020	3,782,356	-	-	3,821,376
Due to customers	11,421,399	8,137,548	1,107,688	4,578	20,671,213
Other borrowed funds	490,065	2,984,049	-	-	3,474,114
Other financial liabilities	87,732	64,478	1,778	4,740	158,728
Subordinated debt	-	636,738	-	-	636,738
Total Financial Liabilities	**12,038,216**	**15,605,169**	**1,109,466**	**9,318**	**28,762,169**
Net on-balance sheet currency position	**1,114,082**	**223,711**	**(13,661)**	**753**	**1,324,885**

Off-balance sheet commitments and guarantees	1,204,901	1,057,631	153,007	-	2,415,539
Credit commitments	751,779	618,167	17,465	-	1,387,411
Off balance sheet - letters of credit	-	84,721	70,850	-	155,571
Off balance sheet - bank guarantees	453,122	354,743	64,692	-	872,557
Total credit related commitments	**1,204,901**	**1,057,631**	**153,007**	**-**	**2,415,539**

The Bank's sensitivity analysis takes into consideration the 8-year historical exchange rate 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. This analyses is based on statistical methods and it represents management's assessment of the reasonably possible change in foreign exchange rates.

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank, given its present currency risk exposure. The calculation of such impact based on 31 December 2019 data and 31 December 2018 (under a standard scenario) is presented below:

Currency	Historical shocks 2019	Historical shocks 2018	Effect on profit or loss 31December2019	Effect on profit or loss 31December2018
EUR	2.21%	-7.23%	(2,749)	(50,146)
USD	-5.29%%	-4.66%	139	735
Total			**(2,610)**	**(49,411)**

Exchange rate shock is determined as follows:

- For a period of seven years, the daily exchange rates for each currency pair are listed. The currency pairs are the bank's functional currency 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.

Considering ALL, EUR and USD denominated asset and liability structures as at 31 December 2019 and 2018, 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 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		538	2,144,235	2,087,075	1,821,542	738,692		6,792,082	
Borrowings and subordinated debt	Fixed								
	Var.							-	
Other financial liabilities		-	-	-	-	-	-	-	3,187,666
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)

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)

ALL Interest Sensitivity Gap At 31 December 2018		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		-	-	-	-	-	-	-	522,526
Balances with Central Banks		907,069		-	-	-	-	907,069	258,986
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	100,000	1,049,660	485,980	-	-	-	1,635,640	(3,046)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks			-	-	-	-	-	-	
Loans and advances to customers	Fixed	628,289	2,123,143	1,714,742	1,215,263	1,915,780	1,127,884	8,725,110	
	Var.	134,829	925,631	838,836				1,899,296	
Other financial assets		-	-	-	-	-	-	-	777,829
Total assets		**1,770,187**	**4,098,434**	**3,039,558**	**1,215,263**	**1,915,780**	**1,127,884**	**13,167,106**	**1,556,295**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	39,020
Current accounts from customers		1,132,993	-	-	-	-	-	1,132,993	3,188,925
Deposits from customers		5,118	1,962,119	2,959,694	1,658,449	412,488	31,000	7,028,868	
Borrowings and subordinated debt	Fixed	490,000						490,000	
Other financial liabilities	Var.							-	1,296,736
Total liabilities		1,628,111	1,962,119	2,959,694	1,658,449	412,488	31,000	8,651,861	4,524,681
IR sensitivity gap- open position		142,076	2,136,315	79,864	(443,186)	1,503,292	1,096,884	4,515,245	(2,968,386)

EUR Interest Sensitivity Gap At 31 December 2018		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		-	-	-	-	-	-	-	457,906
Balances with Central Banks		782,589	-	-	-	-	-	782,589	
Current accounts with banks		2,577,926	-	-	-	-	-	2,577,926	28,983
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	
	Var.		-	-	-	-	-	-	
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	974,141	2,281,290	2,196,574	1,645,955	2,469,475	1,643,171	11,210,606	
	Var.	339,279	602,079	479,638	-	-	-	1,420,996	
Other financial assets		-	-	-	-	-	-	-	(163,208)
Total assets		**4,673,935**	**2,883,369**	**2,676,212**	**1,645,955**	**2,469,475**	**1,643,171**	**15,992,117**	**323,681**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	11,788
Current accounts from customers		1,868,974	-	-	-	-	-	1,868,974	3,911,824
Deposits from customers		401	589,663	1,411,345	119,298	127,074	111,078	2,358,859	
Borrowings and subordinated debt	Fixed	555,390	2,221,560	370,260	1,234,200	2,344,980		6,726,390	
	Var.	617,100						617,100	
Other financial liabilities		-	-	-	-	-	-	-	2,355,991
Total liabilities		**3,041,865**	**2,811,223**	**1,781,605**	**1,353,498**	**2,472,054**	**111,078**	**11,571,323**	**6,279,603**
IR sensitivity gap- open position		**1,632,070**	**72,146**	**894,607**	**292,457**	**(2,579)**	**1,532,093**	**4,420,794**	**(5,955,922)**

USD Interest Sensitivity Gap At 31 December 2018		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		-	-	-	-	-	-	-	43,857
Balances with Central Banks		114,962	-	-	-	-	-	114,962	2,618
Current accounts with banks		258,957	-	-	-	-	-	258,957	19,020
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	
Loans and advances to customers	Fixed	37,464	460,927	45,155	41,005	46,978	4,369	635,898	
	Var.	-	14,902	21,894				36,796	
Other financial assets		-	-	-	-	-	-	-	(11,707)
Total assets		**411,383**	**475,829**	**67,049**	**41,005**	**46,978**	**4,369**	**1,046,613**	**53,788**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	
Current accounts from customers		172,041	-	-	-	-	-	172,041	350,413
Deposits from customers		98	249,874	289,602	26,489	16,672	-	582,735	
Borrowings and subordinated debt	Fixed							-	
	Var.							-	
Other financial liabilities		-	-	-	-	-	-	-	6,944
Total liabilities		172,139	249,874	289,602	26,489	16,672	-	754,776	357,357
IR sensitivity gap- open position		239,244	225,955	(222,553)	14,516	30,306	4,369	291,837	(303,569)

The analysis and calculations are done to quantify the effect of the interest rates movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering EUR and USD denominated asset and liability structures as at 31 December 2019 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, where negative figures represent losses to profit or loss and decrease of net equity.

Estimated profit/(loss) effect	2019		2018	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	38,055	19,028	36,387	18,193
Change EUR market rates	33,854	16,927	51,962	25,981
Change USD market rates	5,306	2,653	6,964	3,482
Total effect (not-netted)	77,216	38,608	95,313	47,656
As % of capital	2.00%	1.00%	2.52%	1.26%

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 is also the risk 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 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 2019, the survival period of the Bank for all currencies in total is calculated above 181 days.

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

31 December 2019	**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	3,170,308	-	-	-	-	**3,170,308**
Trading securities	99,894	995,795	834,522		-	**1,930,211**
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	3,731	354,300				**358,031**
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)**

31 December 2018	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	5,951,907	-	-	-	-	**5,951,907**
Trading securities	99,915	693,555	481,086	-	-	**1,274,556**
Due from other banks		-	-	-	19,020	**19,020**
Loans and advances to customers	2,108,756	2,768,381	3,643,850	5,297,825	8,508,750	**22,327,562**
Investment securities measured at FVOCI	-	-	-	358,038	-	**358,038**
Other financial assets	155,776	-	-	-	-	**155,776**
Total	**8,316,354**	**3,461,936**	**4,124,936**	**5,655,863**	**8,527,770**	**30,086,859**
Liabilities						
Due to other banks	612,456	493,680	1,727,880	370,260	617,100	**3,821,376**
Customer accounts – Business	4,577,824	70,612	225,953	48,188	-	**4,922,577**
Customer accounts – Private	6,721,625	2,146,096	4,629,826	2,251,089		**15,748,636**
Other borrowed funds	490,064	-	-		2,984,049	**3,474,113**
Subordinated debt		-	-		636,738	**636,738**
Gross loan commitments	1,387,411	-	-	-	--	**1,387,411**
Financial guarantees	1,028,128	-	-	-	--	1,028,128
Other financial liabilities	158,728	-	-	-	--	158,728
Total potential future payments for financial obligations	**14,976,236**	**2,710,388**	**6,583,659**	**2,669,537**	**4,237,887**	**31,177,707**
Liquidity gap arising from financial instruments	**(6,659,882)**	**751,548**	**(2,458,723)**	**2,986,326**	**4,289,883**	**(1,090,848)**

Based on contractual maturity, the current and saving deposits are classified as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months results negative and increased. 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. Therefore, the Bank assessed its liquidity risk based on expected liquidity gaps, as defined under the Liquidity Risk Model, approved and applicable at the Group level. Based on such model, current and savings accounts are distributed in different buckets, as per expected remained maturity which represents a more likely scenario, with 1 month outflow rates varying from 7%, to 9% and 12%, respectively for standard and stress scenarios, being higher than any historical evidence. In any event that these are not sufficient, 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), in relation to any needs for raising funds in the Money Market, based on liquidity projections performed on monthly bases. The deposit strategy remains the main focus of the Bank, aiming to provide new and stable 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 Risk Management Policy and Procedures, Liquidity Contingency Plan, Recovery Plan, specialized responsible structures and steering committees (ALCO and RMCO).

The Management of the Bank is monitoring liquidity ratios 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.

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%.

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

a) Items of exposures and possible exposures weighted for the credit, or counterparty risk;
b) Capital requirements for market risks; and
c) Capital requirement for operational risk.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2019 and 2018. 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	**2019**	**2018**
Share capital	4,377,075	3,763,884
Statutory reserve	708,110	708,110
Translation exposure	-	(56,150)
Statutory accumulated (losses)/profits	(2,042,932)	(1,028,279)
Statutory intangible assets	(31,064)	(51,874)
Total qualifying Tier 1 capital	**3,011,189**	**3,335,691**
Tier 2 capital		
Subordinated liability	866,059	636,738
Other deductions	-	(151,512)
Total qualifying Tier 2 capital	**866,059**	**485,226**
Total regulatory capital	**3,877,248**	**3,820,917**
Total risk-weighted assets	**25,098,332**	**27,792,886**
Risk-weighted assets:		
On-balance sheet	21,930,866	24,247,251
Off-balance sheet	1,089,424	1,054,304
Risk assets for operational risk	2,078,042	2,491,331
Risk assets for market risk	-	-
Total risk-weighted assets	**25,098,332**	**27,792,886**
Tier I capital adequacy ratio	**12.00%**	**12.00%**
Tier II capital adequacy ratio	**15.45%**	**13.75%**

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.

6. Management of capital (continued)

Risk 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. 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): The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment). To quantify the amount of economic capital that is needed to cover the counterparty risk (including issuer risk) the Value at Risk (VaR) standard is used, to express the degree of credit risk inherent in the portfolios.
- 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 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 local indicator's (internal and external) shocks levels for local currency.
- 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.

The Operational Risk Management Committee assists the Management Board in operational risk management as defined by the respective internal policy as well as Central Bank regulation.

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. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry bank, pricing service, or regulatory agency, 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.

(b) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These values are recognized in the statement of financial position.

	Fair Value	Level 1	Level 2	Level 3
Investment securities measured at FVOCI				
31 December 2019				
Treasury bills	1,930,211	-	1,930,211	-
Bonds	358,031	-	358,031	-
Total	**2,288,242**	**-**	**2,288,242**	**-**
Investment securities measured at FVOCI				
31 December 2018				
Treasury bills	1,274,556	-	1,274,556	-
Bonds	358,038	-	358,038	-
Shares	196	-	196	-
Total	**1,632,790**	**-**	**1,632,790**	**-**

7. Fair values of financial instruments (continued)

(c) 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 2019				31 December 2018			
	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	3,170,308	3,170,308	-	-	5,951,907	5,951,907	-	-
Loans and advances to banks	3,014,192	3,014,192	-	-	19,020	19,020	-	-
Loans and advances to customers	22,157,380	-	-	22,142,274	22,327,562	-	-	21,752,008
Agricultural loans	589,518	-	-	589,116	732,505	-	-	713,623
Business loans	19,934,527	-	-	19,920,935	19,784,364	-	-	19,274,368
Private loans	133,787	-	-	133,696	109,634	-	-	106,808
Housing loans	1,499,548	-	-	1,498,527	1,701,059	-	-	1,657,210
Other financial assets	266,352	-	-	266,352	155,775	-	-	155,775
Financial Liabilities								
Due to banks	3,426,893	3,426,893	-	-	3,821,376	3,821,376	-	-
Customers' deposits	21,540,689	10,630,913	-	10,630,913	20,671,213	10,625,170	-	10,233,222
Current accounts	7,504,858	7,504,858	-	-	7,451,161	7,451,162	-	-
Saving accounts and others	3,126,055	3,126,055	-	-	3,174,008	3,174,008	-	-
Term deposits	10,839,607	-	-	11,085,280	9,970,461	-	-	10,157,639
Accrued interest	70,170	-		70,170	75,583	-		75,583
Borrowings and subordinated debt	3,808,278	2,942,902		865,376	4,110,851	3,474,113	-	636,738
Borrowings	2,942,902	2,942,902	-		3,474,113	3,474,113	-	-
Subordinated debts	865,376	-	-	865,376	636,738	-	-	636,738
Other financial liabilities	170,850	-	-	170,850	158,728	-	-	158,728

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 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**

As at 31 December 2018	FVOCI	AC	Total
Cash and current accounts with banks	-	5,951,907	5,951,907
Loans and advances to banks	-	19,020	19,020
Other financial assets	-	155,776	155,776
Loans to Business	**-**	**20,516,869**	**20,516,869**
Loans to customers	-	14,963,961	14,963,961
Overdrafts	-	5,552,908	5,552,908
Credit cards	-	-	-
Loans to Private	**-**	**1,810,693**	**1,810,693**
Loans to customers	-	1,781,163	1,781,163
Overdrafts	-	23,241	23,241
Credit Cards	-	6,289	6,289
Total loans and advances to customers	**-**	**22,327,562**	**22,327,562**
Investment securities	**1,632,594**	**-**	**1,632,594**
Albanian Government Treasury Bills	1,274,556	-	1,274,556
Albanian Government Bonds	358,038	-	358,038
Total Financial Assets	**1,632,594**	**28,454,265**	**30,086,859**

9. Net interest income

Interest income was earned on the following assets:

	2019	2018
Interest income		
Loans and advances to customers	1,029,581	1,387,430
Investment securities measured at FVOCI	34,576	38,385
Loans and advances to financial institutions	1,622	16,177
Other interest income	6,823	2,357
Total interest income (effective interest method)	**1,072,602**	**1,444,349**
Interest expense		
Due to customers	149,425	135,906
Interest expenses on subordinated debts	37,785	40,696
Interest expenses on financial institutions	91,208	4,126
Other	4,482	69,983
Total interest expense	**282,900**	**250,711**
Net interest income	**789,702**	**1,193,638**

A total of ALL 18,291 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 2019 (2018: ALL 26,543 thousand).

10. Net fee and commission income

Fees and commissions income were comprised as follows:

	2019	2018
Money transfer and cheques	70,920	72,403
Account maintenance fees	151,814	172,807
Card fees	31,515	61,294
Letters of credit and guaranties	1,860	1,142
Banking services fees	2,216	5,637
Other	2,044	7,641
Total fee and commission income	**260,368**	**320,924**
Transfer commission	23,518	5,240
Cards fees expense	58,601	79,867
Other	26,875	27,503
Total fee and commission expense	**108,994**	**112,610**
Net fee and commission income	**151,374**	**208,314**

11. Other operating income

	2019	2018
Repayment of loans previously written off	-	37,339
Gain on sale of fixed assets	79,981	81,725
Sale of properties acquired through legal process	22,471	16,805
Other	54,480	26,624
Total	**156,931**	**162,493**

All repayments of loans previously written off relate to loans and advances to customers disclosed under note 17. Others consists of income from leasing operations, income from reimbursement of expenses etc.

12. Other operating expenses

	2019	2018
Other expenses	202,081	354,249
IT, Maintenance and repairs	309,241	325,188
Consultancy, legal fees and other services	77,940	144,118
Depreciation of investment property and property and equipment	101,947	110,538
Other provision	13,280	68,173
Deposit insurance ASD	50,149	63,863
Transportation and business trip expenses	25,287	52,974
Security services	54,131	49,061
Telephone and electricity	38,750	49,014
Rent expense	14,172	48,317
Impairment of investment property	-	43,151
Impairment of Fixed asset – Building	257,065	-
Amortization of intangible assets	18,319	27,352
Training	20,206	20,992
Advertising	39,723	20,479
Office supplies	2,650	8,712
Write down of repossessed assets	228,395	65,360
Insurance	6,536	6,771
Total	**1,459,871**	**1,458,312**

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

13. Personnel expenses

Personnel expenses were comprised as follows:

	2019	2018
Salaries	281,488	324,346
Social insurance	19,543	24,058
Public defined contribution plan	8,376	10,311
Other	644	7,505
Total	**310,052**	**366,220**

At 31 December 2019 the Bank had 111 employees (31 December 2018: 165 employees).

14. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2019 and 2018 is presented as it follows:

	2019	2018
Current tax	-	-
Deferred tax benefit/(expense)	-	(60,134)
Income tax benefit/(expense)	**-**	**(60,134)**

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% (2018: 15%).

14. Income tax (continued)

(b) Amounts recognised in OCI

	2019			2018		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Securities FVOCI	1,833	(473)	1,360	1,814	(272)	1,542
Total	**1,833**	**(473)**	**1,360**	**1,814**	**(272)**	**1,542**

(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.

	2019	2018
Loss before taxes	(802,302)	(723,394)
Theoretical (credit) tax calculated at 15% (2018:15%)	(120,345)	(108,509)
Non-deductible expenses	144,425	86,917
Derecognition of deferred tax assets	-	60,133
Unrecognised tax loss carry forwards	(24,080)	21,593
Income tax expense	**-**	**60,134**

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 15% (2018: 15%)

		Movements			Movements		
	2017	In profit or loss	In OCI	2018	In profit or loss	In OCI	2019
Deferred tax assets/(liabilities)							
Available-for-sale investments	4,847	-	(4,847)	-	-	-	
Investment securities measured at FVOCI		-	4,575	4,575	-	(473)	4,102
Accelerated accounting depreciation	2,812	(2,812)	-	-	-	-	-
Write down of repossessed property	23,450	(23,450)	-	-	-	-	-
Other provisions	68	(68)	-	-	-	-	-
Loss for the year	33,803	(33,803)	-	-	-	-	-
Net deferred tax assets/(liabilities)	**64,980**	**(60,133)**	**(272)**	**4,575**	**-**	**(473)**	**4,102**

	31 December 2018
Tax loss carry-forwards expiring by the end of: - 31 December 2021	(86,436)

15. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2019	2018
Cash on hand	1,193,329	1,024,289
Current accounts with non-residents	-	2,865,008
Current account with Central Bank of Albania	79,906	265,907
	1,273,235	4,155,204
Compulsory reserve with Central Bank of Albania	1,900,152	1,800,318
Allowance for impairment losses	(3,079)	(3,615)
Total	**3,170,308**	**5,951,907**

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.

Cash and cash equivalents at 31 December 2019 and 2018 are presented below:

	2019	2018
Cash and balances with Central bank	1,273,235	4,155,204
Loans and advances to financial institutions with maturities of three months or less	3,014,192	-
Receivables from ATM transactions	-	22,981
Monetary values in transit	1,486	1,021
Total	**4,288,913**	**4,179,206**

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 Fitch rating.

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**

31 December 2018	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		265,907	-	265,907
- Compulsory reserve		1,800,318	-	1,800,318
- Government securities (note 18)		-	494,502	494,502
Total cash and balances with central banks		**2,066,225**	**494,502**	**2,560,727**

16. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2019	2018
Deposits with non-resident banks with original maturities of three months or less	3,014,192	-
Other accounts	-	19,020
Total	**3,014,192**	**19,020**

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.

Loans and advances to financial institutions are granted without collateral. The table below presents the Bank's time deposits with corresponding banks by credit ratings:

17. Loans and advances to customers

Loans and advances consisted of the following:

	2019	2018
Loans to customers	17,153,690	18,082,112
Overdrafts	6,204,147	5,787,312
Credit Cards	22	7,388
Accrued interest	93,466	164,796
	23,451,326	**24,041,608**
Credit loss allowance	(1,293,946)	(1,714,046)
	22,157,380	**22,327,562**

17. Loans and advances to customers (continued)

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

	2019	2018
At 1 January	1,714,046	1,356,000
First time adoption of IFRS 9	-	715,606
Credit loss allowance for the year	290,887	379,777
Loans written off	(701,190)	(521,683)
Translation impact	(9,797)	(215,654)
Total	**1,293,946**	**1,714,046**

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

	2019	2018
Loans in ALL	2.00% to 9.27%	4% to 7%
Loans in Euro	1.60% to 7.00%	4.5% to 7%
Loans in Usd	3.00% to 5.00%	4.5% to 7%

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 2019		
	Loans and advances	**ECL**
Stage 1 and 2		
Arrears 0-7 days	21,047,764	(393,898)
Arrears 8-30 days	853,972	(73,203)
Arrears 31-90 days	122,678	(17,361)
Stage 3	1,426,912	(809,485)
	23,451,326	**(1,293,946)**

31 December 2018		
	Loans and advances	**ECL**
Stage 1 and 2		
Arrears 0-7 days	20,997,988	(551,318)
Arrears 8-30 days	1,130,649	(74,956)
Arrears 31-90 days	154,113	(28,897)
Stage 3	1,758,858	(1,058,875)
	24,041,609	**(1,714,046)**

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

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)

31 December 2018	*Business*	*Private*	Total
Total gross amount	22,067,578	1,974,030	24,041,608
Credit loss allowance (individual and collective)	(1,550,709)	(163,337)	(1,714,046)
Net carrying amount	**20,516,869**	**1,810,693**	**22,327,562**

Loans to customers by credit risk stages are presented below:

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**

31 December 2018	Business	Private
Stage 1	19,377,832	1,590,713
Stage 2 (SICR)	1,085,880	228,324
Stage 3 (Default)	1,603,866	154,993
Gross	**22,067,578**	**1,974,030**
Less: credit loss allowance	(1,550,709)	(163,337)
Net carrying amount	**20,516,869**	**1,810,693**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

	31 December 2019			31 December 2018		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Business						
Loans	15,506,016	(1,057,972)	14,448,045	16,298,808	(1,334,847)	14,963,961
Overdrafts	6,193,028	(117,029)	6,075,999	5,768,770	(215,863)	5,552,907
Private						
Loans	1,724,831	(117,747)	1,607,084	1,934,735	(153,572)	1,781,163
Overdrafts	27,418	(1,197)	26,222	31,725	(8,483)	23,241
Credit Cards	31	(1)	30	7,570	(1,281)	6,289
Total loans and advances to customers at AC	**23,451,326**	**(1,293,946)**	**22,157,380**	**24,041,608**	**(1,714,046)**	**22,327,562**

17. Loans and advances to customers (continued)

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

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)**

Gross carrying amount	Balance at January 1, 2018	Transfer	Increases/ Decreases	Write-offs	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses	20,305,238	(528,329)	1,568,645	-	(377,008)	20,968,546
Stage 2 Lifetime ECL not credit impaired	1,322,213	299,774	(249,263)	(33,355)	(25,164)	1,314,205
Stage 3 Lifetime ECL - credit impaired	2,822,515	228,555	(766,234)	(458,412)	(67,566)	1,758,858
Total	**24,449,966**	**-**	**553,148**	**(491,767)**	**(469,739)**	**24,041,608**

Credit loss allowance	Balance at January 1, 2018	Transfer	(Increases)/ Decreases	Change in model risk parameters	Write-offs	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses	(365,841)	(19,433)	(106,160)	51,639	-	7,735	(432,060)
Stage 2 Lifetime ECL not credit impaired	(309,012)	6,695	37,843	3,829	33,355	4,178	(223,112)
Stage 3 Lifetime ECL - credit impaired	(1,711,688)	12,738	153,449	-	458,412	28,214	(1,058,874)
Total	**(2,386,541)**	**-**	**85,132**	**55,468**	**491,767**	**40,127**	**(1,714,046)**

17. Loans and advances to customers (continued)

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 2019:

31 December 2019	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
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**

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2018:

	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business				**-**	
Performing	11,724,687	-	-	**-**	**11,724,687**
Performing LP with EWI	7,653,145	-	-	**-**	**7,653,145**
Underperforming	-	1,085,880	-	**-**	**1,085,880**
Default	-	-	1,564,695	**39,171**	**1,603,866**
Gross carrying amount	**19,377,832**	**1,085,880**	**1,564,695**	**39,171**	**22,067,578**
Expected Credit Loss	**(391,356)**	**(178,818)**	**(975,964)**	**(4,571)**	**(1,550,709)**
Carrying amount	**18,986,476**	**907,062**	**588,731**	**34,600**	**20,516,869**
Private					
Performing	1,318,902	-	-	**-**	**1,318,902**
Performing LP with EWI	271,812	-	-	**-**	**271,812**
Underperforming	-	228,324	-	**-**	**228,324**
Default	-	-	154,992	**-**	**154,992**
Gross carrying amount	**1,590,714**	**228,324**	**154,992**	**-**	**1,974,030**
Expected Credit Loss	**(40,703)**	**(44,295)**	**(78,340)**	**-**	**(163,337)**
Carrying amount	**1,550,011**	**184,030**	**76,652**	**-**	**1,810,693**

Analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

		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**

		2018	
	Private	**Business**	**Total**
Stage 1 and Stage 2			
0 days past due	1,592,595	18,935,595	20,528,190
1 to 30 days past due	205,489	1,381,741	1,587,230
31 to 90 days past due	21,351	145,156	166,507
Total Stage 1 and Stage 2 impaired loans	**1,819,435**	**20,462,492**	**22,281,927**

Stage 3 collectively impaired loans			
0 days past due	22,397	74,749	97,146
1 to 30 days past due	35,519	166,790	202,309
31 to 90 days past due	14,394	21,671	36,065
over 90 days past due	52,853	327,186	380,039
Total Stage 3 Collectively impaired loans	**125,163**	**590,396**	**715,559**
Stage 3 Individually impaired loans			
0 days past due		187,327	187,327
1 to 30 days past due		120,458	120,458
31 to 90 days past due		24,097	24,097
over 90 days past	29,820	682,418	712,238
Total Stage 3 Individually impaired loans	**29,820**	**1,014,300**	**1,044,120**
Total loans	**1,974,418**	**22,067,188**	**24,041,606**
Expected credit losses	(163,337)	(1,550,709)	(1,714,046)
Net loans	**1,811,081**	**20,517,311**	**22,327,562**

17. Loans and advances to customers (continued)

According to the Bank's policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. 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.

	2019		2018	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business Trade	60,383	(24,854)	14,097	(2,126)
Business Agriculture	24,436	(9,771)	7,579	(2,769)
Business Production	807	(381)	2,208	(148)
Business Other	92,258	(41,853)	61,417	(23,514)
Private Housing	3,720	(1,754)	5,037	(930)
Private Investment	141	(5)	487	(48)
Total	**181,745**	**(78,618)**	**90,825**	**(29,535)**

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**

31 December 2018 *Loans with renegotiated terms*	***Business***	***Private***	**Total**
Carrying amount	85,300	5,525	90,825
Credit loss allowance	(28,558)	(978)	(29,536)
Net carrying amount	**56,742**	**4,547**	**61,289**
Loans with renegotiated terms			**2018**
Stage 1			-
Stage 2			31,626
Stage 3			59,199
Total gross amount			**90,825**
Individual impairment			40,411
Collective impairment			50,414
Net loans			**90,825**

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:

	2019	%	2018	%
Business Trade	9,925,682	42%	10,197,178	42%
Business Agriculture	652,276	3%	850,833	4%
Business Production	6,267,113	27%	6,397,090	27%
Business Transport	475,028	2%	605,915	2%
Business Other	4,378,946	19%	4,016,561	17%
Private Housing	1,610,802	7%	1,845,009	8%
Private Investment	83,270	0%	76,171	0%
Private Other	58,210	0%	52,851	0%
Total	**23,451,326**	**100%**	**24,041,608**	**100%**

17. Loans and advances to customers (continued)

Credit portfolio risk from customer lending (continued)

	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**

	2018		
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	9,294,832	488,406	413,939
Business Agriculture	591,673	110,064	149,096
Business Production	5,976,474	190,758	229,858
Business Transport	596,218	8,175	1,522
Business Other	2,918,634	288,477	809,450
Private Housing	1,486,829	223,837	134,343
Private Investment	62,384	3,525	10,263
Private Other	41,502	962	10,387
Total	**20,968,546**	**1,314,204**	**1,758,858**

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2019 along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2019		2018	
	Gross outstanding amount	**Fair value of collateral**	**Gross outstanding amount**	**Fair value of collateral**
Business Trade	286,464	147,454	413,939	152,583
Business Agriculture	67,208	34,895	149,096	73,718
Business Production	385,070	129,537	229,859	98,652
Business Transport	233,951	99,723	1,522	122
Business Other	332,729	152,159	809,450	248,375
Private Housing	116,331	81,768	134,343	91,580
Private Other	5,158	-	20,650	3,337
Total	**1,426,912**	**645,536**	**1,758,858**	**668,367**

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 2019, the ten largest borrowers represent 12.83% (2018: 15.6%) of the total loans

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

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

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

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	67.22%
Small	**not relevant**	not relevant	53.74%
Very small	**EUR 30K to 50K**	greater >180 days	46.96%
		lower than 180 days	46.96%
	Less than EUR 30K	greater >180 days	100%
		lower than 180 days	46.96%

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.

17. Loans and advances to customers (continued)

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 59,092 thousand in 2019 (2018: ALL 37,339 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, 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.

17. Loans and advances to customers (continued)

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 2019.

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**

31 December 2018	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	4,972,581	5,246,851	17,095,134	6,197,757
Private	767,364	767,825	1,207,055	689,613
	5,739,945	**6,014,676**	**18,302,189**	**6,887,370**

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 2019 and 2018. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2019			**2018**		
	OECD countries	**Albania**	**Total**	**OECD countries**	**Albania**	**Total**
Balances with Central Banks	-	1,980,058	1,980,058	-	2,066,224	2,066,224
Loans and advances to banks	3,014,192		3,014,192	19,020		19,020
Loans and advances to customers	-	22,157,380	22,157,380	-	22,327,562	22,327,562
Debt securities held at fair value through other comprehensive income		2,288,243	2,288,243		1,632,790	1,632,790
Other financial assets		266,352	266,352		155,776	155,776
Total	**3,014,192**	**26,692,033**	**29,706,225**	**19,020**	**26,182,352**	**26,201,372**

17. Loans and advances to customers (continued)

Loans and advances to customers based on specific industry sectors at 31 December 2019 and 2018 are presented below:

	31 December			
Industry sector	**2019**	**%**	**2018**	**%**
Trade	10,833,175	49	10,916,131	49
Industry and other production	6,555,968	30	6,935,393	31
Construction	867,948	4	583,869	3
Transport	369,532	2	604,397	3
Services	1,298,669	6	1,183,587	5
Other	2,232,087	10	2,104,185	9
Total	**22,157,380**	**100**	**22,327,562**	**100**

18. Investment securities measured at FVOCI

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

	2019	**2018**
	FVOCI	**FVOCI**
Treasury bills	1,930,211	1,274,556
Bonds	358,032	358,038
	2,288,243	**1,632,594**
Shares	-	196
Total	**2,288,243**	**1,632,790**

As at 31 December 2019, the Bank holds two bonds from Albanian government in ALL, and rated B+ based on Fitch rating (with maturities in February and March 2020).

The movement in investments securities is summarised as follows:

	2019	**2018**
At 1 January	1,632,594	1,831,138
Additions	1,930,212	1,632,594
Matured	(1,257,170)	(1,831,138)
Change in accrued interest	(17,393)	(4,902)
Gains from changes in fair value	-	4,902
Total	**2,288,243**	**1,632,594**

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

	2019	**2018**
At 1 January	(23,067)	(27,465)
Additions	6,665	4,498
Disposals (reclassified to profit or loss)	(3,511)	(2,684)
Net (disposals)/additions	3,154	1,814
Total at 31 December, before income tax	**(19,913)**	**(25,651)**
Deferred tax on the revaluation reserve of Investment securities measured at FVOCI	(473)	(272)
Revaluation reserve loss allowance of FVOCI	(1,321)	2,856
Revaluation reserve for Investment securities measured at FVOCI	**(21,707)**	**(23,067)**

Treasury bills

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

		2019			*2018*	
Issuer	*Maturity*	*Yield*	*Carrying value*	*Maturity*	*Yield*	*Carrying value*
Albanian government	12 months	1.05% - 2.05%	1,930,211	12 months	0.72% - 2.8%	1,274,556
			1,930,211			**1,274,556**

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

18. Investment securities measured at FVOCI (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.54% and LGD of 30%.

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following

	31-Dec-19	31-Dec-18
Opening balances	2,856	-
Transfer to IFRS 9 effect	-	4,913
New financial assets originated	1,433	-
Release due to derecognition	(2,229)	-
Increase/Decrease in credit risk	(525)	-
Charge/(release) to profit and loss	-	(2,057)
Closing balance	**1,535**	**2,856**

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	2019	2018
	Securities at fair value through other comprehensive income	Securities at fair value through other comprehensive income
AAA		
B+	2,288,243	1,632,790
Total	**2,288,243**	**1,632,790**

19. Other assets

	2019	2018
Current assets		
Receivables from ATM transactions	-	22,981
Other debtors	266,352	132,795
Other financial assets	**266,352**	**155,776**
Prepaid expenses	22,822	84,980
Inventory	786	-
Shares	193	-
Non current assets		
Repossessed properties	228,859	615,435
Loss allowance for account receivables	(2,299)	(6,595)
Total	**516,712**	**849,595**

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following:

	31-Dec-19	31-Dec-18
Opening balances	6,595	-
Transfer to IFRS 9 effect	-	7,829
New financial assets originated	-	-
Release due to derecognition	(6,595)	-
Increase/Decrease in credit risk	2,299	-
Charge/release to profit and loss	-	(1,234)
Closing balance	**2,299**	**6,595**

19. Other assets (continued)

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

The repossessed properties are collaterals obtained through legal processes and include land, buildings and business premises, which are not used by the Bank for its core operations. Repossessed properties obtained due to legal process are to be sold as soon as practicable. The Bank fully writes down repossessed property within 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:

	2019	**2018**
Balance at the beginning of the period	615,435	932,517
Additions during period	26,406	61,717
Disposals during the period	(187,561)	(292,062)
Impairment allowance	(228,395)	-
Reversal of impairment	22,470	-
Write downs	(19,497)	(86,737)
Balance at the end of the period	**228,859**	**615,435**

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 2019	**95,710**
Additions	-
Disposals	(80,161)
At 31 December 2019	**95,710**
Accumulated depreciation	(60,728)
Charge for the year	(1,134)
Accumulated depreciation at time of disposal	11,904
Impairment	37,583
At 31 December 2019	**3,175**
At 1 January 2018	**109,113**
Additions	-
Disposals	(13,404)
At 31 December 2018	**95,710**
Accumulated depreciation	(17,056)
Charge for the year	(2,539)
Accumulated depreciation at time of disposal	1,063
Impairment	(42,195)
At 31 December 2018	**(60,728)**
Net Book Value at 31 December 2018	**34,982**

21. Property, plant and equipment

31-Dec-19	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 2019	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 2019	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**

31-Dec-18	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	1,105,296	1,208,639			2,313,935
Additions	13,142	62,814			75,956
Disposals	102,238	521,259			623,497
Transfer	4,334	(4,334)			-
Total acquisition cost as of 31 December 2018	**1,020,534**	**745,860**	**-**	**-**	**1,766,394**
Accumulated depreciation as of 1 January 2018	225,965	966,031			1,191,996
Charge for the year	40,046	67,952			107,998
Disposals	51,253	488,843			540,096
Accumulated depreciation as of 31 December 2018	**214,758**	**545,140**	**-**	**-**	**759,898**
Net carrying amount	**805,776**	**200,720**	**-**	**-**	**1,006,496**

22. Intangible assets

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**
At 1 January 2018	**342,895**
Additions	-
Disposals	(45,096)
Transfer	-
At 31 December 2018	**297,799**
Accumulated depreciation at time of disposal	(241,294)
Charge for the year	(27,352)
Accumulated depreciation at time of disposal	24,915
Accumulated depreciation at 31 December 2018	**(243,731)**
Net book value at 31 December 2018	**54,068**

23. Due to banks

	2019	2018
Borrowings from resident banks	534,850	555,397
Borrowings from non-resident banks	2,878,268	3,215,172
Current accounts from resident banks	13,776	50,807
Total	**3,426,893**	**3,821,376**

Borrowings from resident banks have maturities as at December 31, 2019 up to 31 days and interest rates of 0.00%, 0.05% and 1.60% for balances denominated in ALL.

Borrowings from non-resident banks have maturities as at December 31, 2019 up to 4 years (2018: up to 5 years) and interest rates of 0.00%, 0.942%, 1.19% and 1.92% for balances denominated in EUR (2018: 0.88%, 0.78%, 0.75% and 0.70% p.a for EUR).

24. Due to customers

	2019	2018
Current accounts		
Foreign currency	4,562,242	4,097,609
Local currency	2,787,532	2,991,853
Savings accounts		
Foreign currency	1,840,016	2,039,821
Local currency	1,265,858	1,130,644
Term deposits		
Foreign currency	3,991,492	2,911,217
Local currency	6,865,702	7,064,313
Other customer account		
Foreign currency	89,971	201,167
Local currency	137,876	234,590

Savings accounts in ALL (FlexSave) bear interest at 0.8% p.a (2018: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2018: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2018: 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 2019 were as follows:

(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

31 December 2018

(in %)	12 months	24-36 months	48-60 months
ALL	0.00 - 1.40	2.00 - 2.30	2.50 - 3.00
USD	0.00 - 1.00	1.10 - 1.20	1.30 - 1.40
EUR	0.00 - 0.40	0.50 - 0.60	0.70 - 0.80

25. Subordinated debt

Subordinated Debt	2019	2018
ProCredit Holding	852,390	617,100
Accrued interest	12,986	19,638
Total	**865,376**	**636,738**

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

	2019	2018
Payments in transit	59,300	27,960
Sundry creditors	67,783	114,228
Accrued expenses	16,938	16,540
Lease liabilities	26,828	-
Other financial liabilities	**170,850**	**158,728**
Tax and social charges	12,065	19,073
Other provisions	40,023	49,315
Deferred fee income	7,745	1,357
Total	**230,683**	**228,473**

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 2019 and 2018 is presented below:

	Off-balance sheet items	Legal cases	Staff terminations	Other	Total
Balance as at 1 January 2018	**5,300**	**16,559**	**16,205**	**-**	**38,064**
IFRS 9 Adjustment	17,936	-	-		**17,936**
Provisions made during the year	8,734	731	-	2,870	**12,335**
Provisions reversed during the year	(2,678)	(1,785)	(14,557)	-	**(19,020)**
Balance as at 31 December 2018	**29,292**	**15,505**	**1,648**	**2,870**	**49,315**
Provisions made during the year	15,895	1,285	-	12,402	29,582
Prov. 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**

27. Share capital and legal reserves

At 31 December 2019, the authorised and issued share capital of the Bank was comprised of 456,003 (2018 388,345) shares with a value of EUR 33,698,622 (2018 EUR 28,698,696). In August 2018 the bank increased its share capital by EUR 4,999,926. 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	456,003	33,698,622	100
	456,003	**33,698,622**	**100**

Share Capital	At 1 January 2019	New shares issued	At 31 December 2019
Number of outstanding shares	388,345	67,658	456,003
Share capital	**28,698,696**	**4,999,926**	**33,698,622**

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

	2019	2018
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	1,759,520	1,387,411
International guarantees	407,711	384,815
Local guarantees	542,960	487,743
Letters of credit	35,292	155,571
Less: Provisions recognised as liabilities	(15,895)	(29,292)
Total	**2,729,588**	**2,386,248**
Credit commitments		
Unused credit card facilities	-	23,769
Unused overdraft limits	1,110,835	869,304
Non-disbursed loans tranches	-	-
Unused portion of credit lines	648,686	494,338
Total	**1,759,520**	**1,387,411**

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 2019.

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 2019 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 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				
Total credit related commitments	**1,739,990**	**17,095**	**2,435**	**1,759,520**
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**

Commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	872,557			**872,557**
Letters of credit	155,571			**155,571**
Total Guarantees and Letter of Credits	**1,028,128**			**1,028,128**
Loans commitments not yet disbursed				
Total credit related commitments	**1,355,235**	**4,530**	**27,646**	**1,387,410**
Provision for guarantees and Letter of Credits	(19,656)			(19,656)
Provision for loan commitments	(9,585)	(50)	-	(9,635)
Total commitments	**2,354,122**	**4,480**	**27,646**	**2,386,248**

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 2019, were ALL 41,600 thousand (2018: ALL 55,078 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 2019 and 2018 are presented below:

	Relationship	2019	2018
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities under common control	2,416,770	2,853,314
		4,526	4,646
Financial assets due from Quipu GmbH		-	-
Other financial assets		-	-
		2,421,296	**2,857,960**
Liabilities due to:			
Due to other ProCredit banks - Senior Loans	Entities under common control	2,878,268	3,215,163
Financial liabilities to other ProCredit banks		1,425	2,389
Financial liabilities to Quipu GmbH		11,424	3,668
Due to Quipu GmbH		-	-
Due to ProCredit Holding AG & Co. KGaA - Senior Loans	Parent Company	2,942,902	2,982,899
Subordinated debt from ProCredit Holding AG & Co. KGaA		865,376	635,756
		6,699,395	**6,839,875**

.	Relationship	2019	2018
Income from:			
Interest income from ProCredit banks	Under common control	(7,163)	(998)
Other income from ProCredit Group		4,172	-
		(2,991)	**(998)**
Expenses:			
The Parent: Interest expenses for subordinated debt & senior loans	Parent Company	85,406	77,764
ProCredit Banks: Interest expenses for senior loans		43,213	17,459
The Parent & banks: Other administrative expenses		65,003	77,739
The Parent and academies: Training expenses		17,844	29,520
The Parent: commitment fees		16,512	13,915
Quipu GmbH: IT services	Under common control	218,350	200,213
Quipu GmbH: Card processing fees		13,150	20,315
		459,478	**436,925**

29. Related party transactions (continued)

	2019	2018
Key management remuneration:		
Salaries	36,666	44,746
Short-term pension contribution (mandatory scheme)	2,257	2,682
Total	**38,923**	**47,428**

30. Events after the reporting date

In December 2019, an outbreak of a new strain of coronavirus, COVID-19, emerged in Wuhan, China. Within weeks, despite efforts to contain the virus in China that included widespread shutdowns of cities and businesses, the number of those infected grew significantly, and beyond China's borders including Albania. On 11 March 2020, the World Health Organization announced a pandemic situation due to the global emergency caused by the outbreak of COVID 19. The coronavirus outbreak is still evolving and its effects remain unknown. For further details please refer to **Note 2 "Going Concern"**

The rapid development of the Covid-19 virus and its social and economic impact in Albania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining expected credit losses from the credit facilities granted to SME customers that operate in hotel and tourism services.

The management of the Bank expects that the assumptions and estimates used in determining the fair values of the level 3- financial assets (sovereign debt securities) to be affected due to fluctuations in the market interest rates. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer term impact may also affect lending volumes, cash flows and profitability. Nevertheless at the date of these financial statements the Bank continues to meet its obligations as they fall due.

The Bank had the necessary infrastructure to overcome the operational disruption imposed by the pandemic situation considering the logistic measures taken for the administrative staff to follow the work remotely. Whilst the branches were allowed to continue operations but with certain limitations concerning the available timing for customer service. Therefore, the customers are encouraged to use mobile banking for the major part of their transactions. Furthermore, the Government is considering to extend the daily time limits for the banks to offer the customer services.

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

The management of the Bank is not aware of any other events after the reporting date that would require either adjustment or additional disclosures in these financial statements.

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Contact Addresses

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As at 31 December 2019