Banka Kombetare Tregtare Sh.a.

Independent auditor’s report and
Consolidated financial statements
as at and for the year ended 31 December 2020

Contents

Independent Auditor's Report

Grant Thornton Sh.p.k.
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To the Shareholders and Board of Directors of Banka Kombetare Tregtare Sh.a

Qualified Opinion

We have audited the consolidated financial statements of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank" or the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion' section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2020, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the special purpose interim financial information and recognized the revaluation differences for the year ended 31 December 2020 within net profits in the consolidated statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the share capital as at 31 December 2020 would have been increased by USD 32,837,390 retained earnings would have been decreased by USD 11,264,605 and the net profit would have been decreased by USD 21,572,785 for the year ended 31 December 2020. Nevertheless, this would not have affected the total shareholders' equity.

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

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

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

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

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

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

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

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

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

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

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

Kledian Kodra, FCCA

Grant Thornton sh.p.k.

Tirana, Albania
24 March 2021

Consolidated statement of financial position as at 31 December 2020

(Amounts in USD)

	Notes	31 December 2020	31 December 2019
Assets			
Cash and balances with Central Bank	7	465,266,853	380,047,094
Placement and balances with banks	8	556,699,226	873,788,983
Investment securities	9	2,185,679,756	1,595,645,317
Loans to banks	10	260,906,427	129,313,651
Loans to customers	11	1,359,092,079	1,208,566,427
Investment in associates	12	1,036,370	904,121
Property and equipment	13	47,655,825	42,499,993
Intangible assets	14	4,159,451	4,411,195
Right of use asset	15	17,335,396	9,896,345
Deferred tax assets	20	2,369,463	2,081,927
Other assets	16	51,346,977	45,416,971
Total assets		**4,951,547,823**	**4,292,572,024**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	17	3,982,476,397	3,409,397,079
Due to banks and financial institutions	18	315,857,527	337,482,014
Due to third parties	19	2,007,320	2,372,307
Accruals and other liabilities	21	59,659,449	19,776,329
Lease Liability	15	17,546,271	9,961,323
Subordinated debt	22	30,741,975	28,085,585
Total liabilities		**4,408,288,939**	**3,807,074,637**
Shareholder's equity			
Share capital	23	300,000,000	300,000,000
Legal reserve	23	34,860,433	17,091,262
Translation reserve	23	5,486,005	571,499
Fair value reserve and impairment of FVOCI	23	68,828,993	55,556,634
Retained earnings	23	134,083,453	112,277,992
Total shareholder's equity		**543,258,884**	**485,497,387**
Total liabilities and shareholder's equity		**4,951,547,823**	**4,292,572,024**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 87.

The consolidated financial statements were authorised for release by the Board of Directors on 28 January 2021 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skender Emini
Head of Finance Group

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020

(Amounts in USD)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Interest			
Interest income	24	154,612,644	148,552,502
Interest expense	25	(20,951,646)	(27,462,623)
Net interest margin		**133,660,998**	**121,089,879**
Non-interest income, net			
Fees and commissions, net	26	20,884,362	18,136,249
Foreign exchange revaluation, net	27	(5,666,549)	649,527
Foreign exchange trading activities income, net		2,018,274	(2,879,307)
Securities trading gain, net		11,683,092	4,464,832
Other (expense) / income, net	28	8,954,136	(8,048,935)
Total non-interest income, net		**37,873,315**	**12,322,366**
Operating expenses			
Personnel expenses	29	(22,347,090)	(20,809,231)
Administrative expenses	30	(33,162,276)	(31,497,864)
Depreciation and amortization	13,14,15	(8,613,021)	(8,001,755)
Total operating expenses		**(64,122,387)**	**(60,308,850)**
Impairment losses on loans to customers	11	(13,719,128)	(7,427,229)
Impairment losses on financial assets, other than loans to customers	31	(5,218,515)	229,141
Profit before taxes		**88,474,283**	**65,905,307**
Income tax	32	(13,167,243)	(9,444,506)
Net profit for the year		**75,307,040**	**56,460,801**
Foreign currency translation differences		4,914,506	451,757
Net change in fair value reserves and impairment of FVOCI		13,272,359	30,848,972
Other comprehensive income/(expense) for the year, net of income tax		**18,186,865**	**31,300,729**
Total comprehensive income for the year		**93,493,905**	**87,761,530**

The consolidated statement of profit or loss and comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 87.

Consolidated statement of changes in equity for the year ended 2020

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2018	**300,000,000**	**-**	**119,742**	**24,707,662**	**109,905,208**	**434,732,612**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserves	-	17,091,262	-	-	(17,091,262)	**-**
Dividend payment	-	-	-	-	(35,000,000)	**(35,000,000)**
Appropriation of year 2018 translation difference	-	-	-	-	119,742	**119,742**
Adjustment of retained earnings with December 2019 year end exchange rate	-	-	-	-	(2,116,497)	**(2,116,497)**
Total transactions with owners recorded in equity	-	*17,091,262*	-	-	*(54,088,017)*	***(36,996,755)***
Comprehensive income for the year						
Net profit for the year	-	-	-	-	56,460,801	**56,460,801**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	30,848,972	-	**30,848,972**
Foreign currency translation differences	-	-	451,757	-	-	**451,757**
Total other comprehensive income	-	-	451,757	30,848,972	-	**31,300,729**
Total comprehensive income for the year	-	-	*451,757*	*30,848,972*	*56,460,801*	**87,761,530**
Balance as at 31 December 2019	**300,000,000**	**17,091,262**	**571,499**	**55,556,634**	**112,277,992**	**485,497,387**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 87.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of changes in equity for the year ended 2020

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve and impairment of FVOCI	Retained earnings	Total
Balance as at 31 December 2019	**300,000,000**	**17,091,262**	**571,499**	**55,556,634**	**112,277,992**	**485,497,387**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserves	-	16,447,158	-	-	(16,447,158)	-
Adjustment for translation of legal reserve	-	1,322,013	-	-	(1,322,013)	-
Dividend payable					(40,000,000)	**(40,000,000)**
Appropriation of year 2019 translation difference	-	-	-	-	571,499	**571,499**
Adjustment of retained earnings with December 2020 year end exchange rate	-	-	-	-	3,696,093	**3,696,093**
Total transactions with owners recorded in equity	-	*17,769,171*	-	-	*(53,501,579)*	**(35,732,408)**
Comprehensive income for the year						
Net profit for the year	-	-	-	-	75,307,040	**75,307,040**
Other comprehensive income, net of income tax						
Net change in fair value reserve	-	-	-	7,101,949	-	**7,101,949**
Net change in impairment of FVOCI	-	-	-	6,170,410	-	**6,170,410**
Foreign currency translation differences	-	-	4,914,506	-	-	**4,914,506**
Total other comprehensive income	-	-	4,914,506	13,272,359	-	**18,186,865**
Total comprehensive income for the year	-	-	4,914,506	13,272,359	75,307,040	**93,493,905**
Balance as at 31 December 2020	**300,000,000**	**34,860,433**	**5,486,005**	**68,828,993**	**134,083,453**	**543,258,884**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 87.

Consolidated statement of cash flows for the year ended 31 December 2020

(Amounts in USD)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities:			
Profit before taxes		88,474,283	65,905,307
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	25	20,951,646	27,462,623
Interest income	24	(154,612,644)	(148,552,502)
Depreciation and amortization	13,14,15	8,613,021	8,001,755
Gain on sale of property and equipment		(2,969)	(66,108)
Gain on sale of investment securities		(11,683,092)	(4,464,832)
Gain on sale of non-current assets		(284,543)	(161,886)
Gain on recovery of written-off loans to customers		(1,307,987)	(547,168)
Write-off of property and equipment		-	2,467
Write-off of loans to customers		897,063	15,694,968
Write off of fixed assets and repossessed assets		8,295	19,747
Provision on other debtors		97,271	5,501,254
Reversal of other debtors		(359,938)	(372,088)
Movement in the fair value reserve and impairment of FVOCI		13,272,359	30,693,606
Dividend income from securities		(1,597,323)	(1,275,000)
Impairment of loans to customers	11	13,719,128	7,427,229
Impairment of financial instruments, other than loans	31	5,218,515	(229,141)
Cash flows from operating profits before changes in operating assets and liabilities		(18,596,915)	5,040,231
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(39,617,334)	(78,455,006)
Placements and balances with banks		41,908,969	(2,828,400)
Loans to banks		(112,534,033)	64,462,760
Loans to customers		(66,430,964)	(25,970,107)
Other assets		(7,035,880)	1,593,940
		(183,709,242)	(41,196,813)
Increase/(decrease) in operating liabilities:			
Customer deposits		288,185,254	300,594,898
Due to third parties		(509,904)	(998,968)
Accruals and other liabilities		1,268,936	12,053,897
		288,944,286	311,649,827
Dividend payment		-	**(35,000,000)**
Interest paid		(21,638,561)	(28,353,108)
Interest received		154,652,026	149,532,114
Income taxes paid		(12,445,524)	(11,842,727)
Net cash flows from operating activities		**207,206,070**	**349,829,524**
Cash flows from investing activities			
Purchases of investment securities		(791,418,149)	(446,222,808)
Purchases of treasury bills		(39,082,767)	(2,099,853)
Investment in associates		(57,932)	453,627
Purchases of property and equipment		(15,999,961)	(20,195,670)
Proceeds from sale of property and equipment		-	1,048
Proceeds from sale of investment securities		367,163,785	316,341,153
Proceeds from sale of treasury bills		40,934,350	17,606,969
Net cash flows used in investing activities		**(438,460,674)**	**(134,115,534)**
Cash flows from financing activities			
Proceeds from short term borrowings	18	(44,264,257)	16,116,254
Subordinated debt		444,823	(375,512)
Net cash from financing activities		**(43,819,434)**	**15,740,742**
Net change in cash and cash equivalents		**(275,074,038)**	**231,454,732**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		5,128,035	213,363
Cash and cash equivalents at the beginning of the year	7	**941,934,287**	**710,266,192**
Cash and cash equivalents at the end of the period	7	**671,988,285**	**941,934,287**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 87.

1. General

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

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

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

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

Upon the Shareholder's Decision dated 1 April 2020, the Bank created legal reserves of Lek 1,658,531 thousand (equivalent of USD 14,592,614) and decided to distribute Lek 4,690,400 thousand as dividends (equivalent of USD 40,000,000, using the exchange rate published by Bank of Albania as at 1 April 2020 - 117.26 Lek per USD), using of the statutory net profit for the year ended December 31, 2019 and part of the net profit of the year 2018. Meanwhile, the dividend payment was suspended based on the respective decisions of the Supervisory Council of Bank of Albania until 2020 end and paid in January 2021 following the respective Bank of Albania decision. The remaining part of the net profit of the year 2019 was kept as retained earnings.

As at 31 December 2020 and 31 December 2019, the registered share capital was USD 300,000,000.3 divided into 24,291,498 shares with a nominal value of USD 12.35, while the shareholding structure was as follows:

	31 December 2020			***31 December 2019***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	24,291,498	300,000,000.3	100	24,291,498	300,000,000.3	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 61 branches and 3 custom agencies. Twenty-five branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat, Koplik, Gramsh and Skrapar, followed by custom agencies in Durrës Seaport, Rinas Airport and Corovoda.

The network in Kosovo includes 25 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,329 (31 December 2019: 1,311) employees as at 31 December 2020, out of which 389 (31 December 2019: 358) employees belong to BKT Kosovo.

The average number of employees of the Bank for the period ended 31 December 2020 is 1,320 (31 December 2019: 1,302) out of which 374 (31 December 2019: 360) employees belong to BKT Kosovo.

2. Basis of preparation

(a) Statement of compliance and going concern assumption

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared under the assumption that the Bank operates on a going concern basis.

The Bank has considered the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

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

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

On 3 September 2007 BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo. Pursuant to the request of “Banka Kombetare Tregtare” Kosovo dated 14.02.2018, in reference to the change of the transformation from a *branch* to a *subsidiary,* the Central Bank of Kosovo has approved on 30 April 2018 the transformation into subsidiary of Banka Kombetare Tregtare – Kosovo Branch. Under this decision, all the rights and obligations deriving from BKT – Kosovo Branch shall remain rights and obligations of BKT Kosovo Sh.A as a subsidiary. The Spin Off date of BKT Kosovo is effective as at 1 January 2019. The functional currency is the EURO. The effect of translating foreign operations into the Bank’s functional currency is explained in note 3.(b).(ii) below.

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, between the Bank’s shareholders and the Republic of Albania on the Bank’s privatisation.

Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

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

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

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

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 100.84 Lek (2019: 108.64).
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

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

(c) Interest

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

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

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Lease payments made

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

(f) Income tax expense

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

3. Significant accounting policies (continued)

(f) Income tax expense (continued)

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2020, tax on profit is equal to 15% of the taxable income. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under the Albanian law. The statutory profit is based on the financial records kept by the Bank for regulatory purposes and may differ from the International Financial Reporting Standards reported financial result. However, current income tax payable for the 2020 financial year is equal according to both standards.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

Tax applications for foreign subsidiaries of the Bank:

Republic of Kosovo

The applicable corporate tax rate in Republic of Kosovo is 10% (31 December 2019: 10%).
Under Kosovo tax legislation system, tax losses can be carried forward to be offset against future taxable income for up to seven years.

(g) Financial assets and liabilities

(i) Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(ii) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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

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

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

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

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

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

(iii) Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:
- the entity’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognised in profit or loss.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Classification and initial measurement of financial assets (continued)

– ***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)***

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

– ***Business model assessment***

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

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

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

Treasury

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

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

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

The business model of the Bank under IFRS 9 is:

- "HTC" for HTM products. Such products shall be measured at amortised cost;
- "HTCS" for AFS products. Such products shall be measured at FVOCI; and
- "Other BM" for TRD products and shall be measured at FVTPL.

Retail

The Retail assets consist of various financing facilities to individuals (e.g. Mortgage loans, Consumer loans, Home improvement loans, Car loans, Credit cards). These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.

The fair value of the Retail assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the Retail loans shall be measured at amortised cost.

Corporate

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

The fair value of the Corporate assets is not a critical aspect in the Bank's management of the portfolio.

The business model of the Banks under IFRS 9 is "HTC" and the corporate loans shall be measured at amortised cost.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iv) Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.
Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments as well as government bonds and forfeiting instruments that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in Albania Leasing Sh.a and equity securities at fair value through other comprehensive income (FVOCI). The equity investment in Albania Leasing Sh.a. and certain equity securities were measured at cost less any impairment charges in the comparative period under IAS 39, as it was determined that their fair value could not be estimated reliably. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Bank determined that in the current period the Fair Value of these investments approximates to their carrying amount. The Group's government bonds that were previously classified as held-for-trading under IAS 39 fall into this category.

Financial assets at fair value through other comprehensive income (T)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Group's government bonds and treasury bills, corporate bonds, promissory notes, assets backed securities and equity portfolio that were previously classified as available for sale under IAS 39 fall into this category.

(v) Offsetting

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

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Amortised cost measurement

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

(vii) Fair value measurement

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

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

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

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.
When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(viii) Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.
Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.
Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).

‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognised for the first category while ‘lifetime expected credit losses’ are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(x) Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group’s financial liabilities were not impacted by the adoption of IFRS 9. The Group’s financial liabilities include Customer deposits borrowings from banks and other financial institutions, subordinated debt and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included within finance costs or finance income.

(xi) Derivative financial instruments and hedge accounting

The Group applies the new hedge accounting requirements in IFRS 9 prospectively.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

3. Significant accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Derivatives held for risk management purposes

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

(j) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

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

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.
When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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

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

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

3. Significant accounting policies (continued)

(l) Intangible assets

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

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

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

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

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

(n) Impairment of non-financial assets

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

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

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

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

3. Significant accounting policies (continued)

(p) Investments in associates and joint ventures

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

(q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

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

(r) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See note 21), during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

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

3. Significant accounting policies (continued)

(s) Employee benefits (continued)

(ii) Defined benefit plans (continued)

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

(iii) Short-term benefits

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

(t) Segment reporting

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

(u) New Standards adopted as at 1 January 2020

Some accounting pronouncements which have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

Standards and amendments that are effective for the first time in 2020 (for an entity with a 31 December 2020 year-end) and could be applicable to the Bank are:

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to Refences to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made.

3. Significant accounting policies (continued)

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

Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

4. Use of estimates and judgements

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

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (note 3, (g), (iii)). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

ECL Determination

Significant increase of credit risk: As explained in note 3 (g) (ix) and 5 (b) (ii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 (g) (ix) and 5 (b) (ii), for more details.

4. Use of estimates and judgements (continued)

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 (g) (ix) and 5 (b) (ii), for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 (g) (ix) and 5 (b) (ii), for more details on ECL and note 3 (g) (viii) for more details on fair value measurement.

Input in data model of application of IFRS 16 requirements

Initial direct costs

An entity may exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application.

Based on IFRS 16, if a lessee elects to apply the standard with the modified retrospective application, the lessee shall choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

Option 1 – its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application. The practical expedient to exclude initial direct costs from the measurement of the Right of Use asset at the date of initial application is applicable under Option 1 or;

Option 2 – an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Although it is not stated explicitly in the new standard, the practical expedient on initial direct costs is not relevant under Option 2. The Bank does not adjust the Right of Use asset for historical amounts e.g. initial direct costs.

The Bank has opted to apply the modified retrospective method under Option 2.

Low-value assets

Lessees can also make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low-value. IFRS 16 does not define the term low-value.

Banka Kombëtare Tregtare uses the EUR 10,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes.

4. Use of estimates and judgements (continued)

Input in data model of application of IFRS 16 requirements –(continued)

Incremental Borrowing Rate

The rate used for calculation of the RoU asset and Lease liability has taken into consideration the term, FX denomination, risk associated with the bank, security, risk associated with the asset and economic environment.

The closest values matching this definition are Funds Transfer Pricing (FTP) rates. The term and FX denomination are taken into consideration when constructing the EUR/USD/ALL yield curves. The Bank considered at the initial application date the rates published by 31 December 2018.

After consideration, the Bank determined that there are no differences in terms of security, due to the fact that the lessor effectively has security of owning the asset. Therefore, no adjustments were required. Since the starting point is in the same jurisdiction and in the same currency as leases, no adjustment is required for this segment as well. In addition, for assets such as an office building, considering that they are in a frequented area, are not highly illiquid or specialized assets, specific asset premium would be nil. Meanwhile, the risk associated with the economic environment is incorporated in the government bonds yield.

The Bank has adjusted the rate for the credit spread, the cost that the bank would pay if it were required to borrow the respective funds to finance the acquisition of such an asset.

The weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.14%. The incremental borrowing rate is determined as the base rate yield curve plus the credit spread.

a. Base rate yield curve

Input data in the model are money market rates (inter-bank rates in maturity bucket ON-1Y). These data are published on daily basis in “Reuters” (inter-bank trading platform). For higher maturities, the rate is calculated by extrapolating starting from the money market rates of December 2019. The Bank uses the Nelson-Siegel-Svensson model for extrapolation purposes for USD yield curve construction, which fits an exponential approximation of the discount rate function directly to market prices. The Bank introduced the application of the augmented NSS (Nelson-Siegel-Svensson) model as a version that has the ability to combine different forms of graphs, allowing in essence negative rates as well as atypical interest rate distributions, which are not captured accurately by the classic Nelson-Siegel model.

The Bank uses the Cubic spline interpolation for EUR yield curve construction. Cubic spline interpolation is a special case of spline type interpolation that is used very often to avoid the problem of Runge's phenomenon. This method gives an interpolating polynomial that is smoother and has smaller error than some other interpolating polynomials such as Lagrange polynomial and Newton polynomial. Cubic smoothing splines fitted to univariate time series data can be used to obtain local linear forecasts. The approach is based on a stochastic state space model which allows the use of a likelihood approach for estimating the smoothing parameter, and which enables easy construction of prediction intervals. In essence the same mathematical mechanic is followed by the NSS (Nelson-Siegel-Svensson) model. Whereas an interpolation typically begins with specifying a functional form either to approximate discount function or forward rates, and then estimates the unknown parameters. The cubic spline approach, brings more flexibility on the shape of a yield curve and is thus good for financial practitioners who are looking for small pricing anomalies.

4. Use of estimates and judgements (continued)

Input in data model of application of IFRS 16 requirements –(continued)

To construct local currency, Albanian Lek (ALL), yield curve (YC) the Bank is using the Cubic spline interpolation, as described above. Yields of government bonds (ON-1Y) are auction results published by Ministry of Finance and Bank of Albania at the end of each respective auction. For auctions that are not so frequent, the rate is calculated by extrapolating between rate values of the last 2Y bond and the rate derived from the last auction of the bond in question.

The issue encountered by the bank's forecasts on Treasury Yields is of the Runge's phenomenon type, which is a problem of oscillation at the edges of an interval that occurs when using polynomial interpolation with polynomials of high degree over a set of equispaced interpolation points.

b. Credit spread

For the credit spread calculations, the Bank has approached the following logic:

1) Identify the international long-term Issuer Default Rating of the financial institution (“Bank”). International long-term IDR is given by the External Credit Rating Agency such as Moody’s, Fitch or Standard & Poor. The Bank will use only the official, world-wide accepted, external credit rating agencies such as Fitch, Moody’s and S&P because only these 3 agencies do the analyses world-wide, make and publish the studies on PDs, LGD’s (where credit spread will be determined as PD*LGD) etc. on the global level. These three agencies are also the only ones allowed to be used for the purpose of relying on the expert-data parameters for e.g. in EU (as per CRD/CRR regulation etc.).
2) If the financial institution (Bank) does not have such a rating and it is part of a Group, the lower rating of the country ceiling for the country where Bank is located and the external agency’s international long-term Issuer Default Rating of the ultimate parent is used. The underlying reason for this approach is that when a bank is part of a group, support is more likely.
3) If neither of these steps results in a rating, country ceiling for the country in which Bank is located is identified and at least one notch is subtracted. The country ceiling is the best rating that an entity based in that country can receive, so this is used as a benchmark as we tend to work with the biggest and most robust institutions. Additionally, the downward risk adjustment is made for the sake of prudence.

That particular rating of the Bank is assigned proper probability of default rate (PD rate), which is externally calculated – expert data given by the external credit rating agency. However, PD is just a probability. In order to approximate full credit risk, LGD is needed. By multiplying the PD rate and LGD rate, credit loss rate is obtained, and this is the approximation of credit risk.

The weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.14%.

4. Use of estimates and judgements (continued)

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (g) (viii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also “Valuation of financial instruments” below.

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

Valuation of financial instruments

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

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

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

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

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

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

4. Use of estimates and judgements (continued)

Fair values

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

31 December 2020	**Note**	**Carrying Amount**			**Fair Value**	
			Level 1	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	556,699,226	-	556,699,226	-	556,699,226
Investment securities	9	2,185,679,756	956,632,046	1,233,205,156	-	2,189,837,202
Loans to banks	10	260,906,427	-	260,906,427	-	260,906,427
Loans to customers	11	1,359,092,079	-	-	1,359,092,079	1,359,092,079
Total financial assets		**4,362,377,488**	**956,632,046**	**2,053,373,820**	**1,359,092,079**	**4,366,534,934**
Customer deposits	17	3,982,476,397	-	-	3,982,476,397	3,982,476,397
Due to banks and financial institutions	18	315,857,527	-	315,857,527	-	315,857,527
Subordinated debt	22	30,741,975	-	30,741,975	-	30,741,975
Total financial liabilities		**4,329,075,899**	**-**	**346,599,502**	**3,982,476,397**	**4,329,075,899**
31 December 2019	**Note**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Placement and balances with banks	8	873,788,983	-	873,788,983	-	873,788,983
Investment securities	9	1,595,645,317	568,346,700	1,032,149,448	-	1,600,496,148
Loans to banks	10	129,313,651	-	129,313,651	-	129,313,651
Loans to customers	11	1,208,566,427	-	-	1,208,566,427	1,208,566,427
Total financial assets		**3,807,314,378**	**568,346,700**	**2,035,252,082**	**1,208,566,427**	**3,812,165,209**
Customer deposits	17	3,409,397,079	-	-	3,409,397,079	3,409,397,079
Due to banks and financial institutions	18	337,482,014	-	337,482,014	-	337,482,014
Subordinated debt	22	28,085,585	-	28,085,585	-	28,085,585
Total financial liabilities		**3,774,964,678**	**-**	**365,567,599**	**3,409,397,079**	**3,774,964,678**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 16 and 21. The Fair value of loan to customers and customer deposits approximates to their carrying value either due to interest rates approximating the market rates or due to short term maturities.

4. Use of estimates and judgements (continued)

Going Concern

During the beginning of 2020, the pandemic of COVID-19 was spread globally. In response to the situation, in March 2020 the Government of Albania took drastic measures by suspending all activities that were not vital. Furthermore, facing the consequences of the COVID-19 Pandemic, which go far beyond the crucial element of public health, both the Government of Albania and Bank of Albania implemented immediate measures in order to mitigate the social and economic impact of the outbreak. The government announced a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Bank of Albania has announced that customers that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Banks until 31.12.2020.

The Group considers the liquidity risk in the recovery plans, in the internal capital adequacy assessment process, setting well-defined limits on its appetite for risk. The Group determines that its capital resources are available.

In terms of liquidity scenarios, the Group conducts periodically stress tests exercises to assess its liquidity position. In these exercises it considers a liquidity crisis scenario specific to BKT and a liquidity crisis scenario to the entire banking system, assuming withdrawal of deposits of at least 20% and delay in loan repayments. Throughout 2020, the exercises have confirmed that even if the liquidity stress situation would continue for a period of 3 months, the Group would meet the demand for funds for its 3 main currencies ALL, EUR and USD.

The Group performs stress test exercises to test the possible impact of macroeconomic indicators in Group's key financial position, performance and regulatory compliance. These stress tests are mainly focused on the impact that some outlined macro and microeconomic scenarios might have on the loan portfolio, being the Group's main source of income, financial position including market risk. Official forecast models of the Central Bank and Group’s internal risk valuation are used in these exercises.

In the scenarios considering the pandemic extent, the CAR in both, baseline and adverse scenarios, have resulted above the minimum requirement threshold set by Bank of Albania. The Group has assumed that there is no need the capital requirements be increased.

For the year ending 2021, the Group would expect an increase on the nonperforming loans portfolio due to the economic downturn. Following the emergence of COVID - 19 pandemics, the Group has analysed and considered the macroeconomic changes to reflect the impact of COVID - 19 in the calculation of the Expected Credit Loss.

During 2020, the Group has managed to achieve the budgeted results, exceeding them in terms of profitability and balance sheet size. For the year ending 2021, the Group expects the budgeted figures to be standing at positive results, although not possible to be reliably measured at the moment.

During 2020, the decline in share prices on global listed stock exchanges occured in the beginning of 2020 reversed gradually in the upcoming month resulting to a higher fair value of the Group’s listed investments. In 2021 the Management expect a stable performance of the fair value reserve.

The Group’s management evaluates the Group’s ability to continue as a going concern considering all the factors stated above and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

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

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

Risk management framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 2,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

i. Maximum credit exposure

The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets. Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2020 and 31 December 2019 are as follows:

Financial Instruments Credit Risk

	31 December 2020			31 December 2019		
	Exposure before impairment	**Impairment**	**Net exposure for credit risk**	**Exposure before impairment**	**Impairment**	**Net exposure for credit risk**
A. Credit risk exposure relating to balance sheet items						
Cash and Cash Balances with Central Bank	465,266,853	-	465,266,853	380,047,094	-	380,047,094
Placements and Balances with banks	556,760,536	(61,310)	556,699,226	873,807,134	(18,151)	873,788,983
Investment securities - measured at FVTPL	74,800,809	-	74,800,809	27,801,067	-	27,801,067
Investment securities - measured at FVOCI *	1,946,518,373	-	1,946,518,373	1,482,682,099	(2,127,531)	1,480,554,568
Investment securities - measured at amortised cost	165,131,261	(770,687)	164,360,574	87,471,774	(182,092)	87,289,682
Loans to banks	262,058,197	(1,151,770)	260,906,427	129,549,129	(235,478)	129,313,651
Loans to customers	1,429,783,465	(70,691,386)	1,359,092,079	1,260,934,999	(52,368,572)	1,208,566,427
Other assets	12,546,160	(927,021)	11,619,139	11,204,999	(655,594)	10,549,405
Total Assets	**4,912,865,654**	**(73,602,174)**	**4,839,263,480**	**4,253,498,295**	**(55,587,418)**	**4,197,910,877**
Off balance sheet items						
Undrawn credit commitments	135,729,619	-	135,729,619	137,836,220	-	137,836,220
Outstanding cheques of non-resident banks	360,314	-	360,314	377,076	-	377,076
Spot foreign currency contract	130,262,997	-	130,262,997	117,025,707	-	117,025,707
Collaterals for loan portfolio	3,604,049,495	-	3,604,049,495	3,191,295,537	-	3,191,295,537
Securities pledged as collateral	279,810,581	-	279,810,581	291,932,990	-	291,932,990
Total off balance sheet	**4,150,213,006**	**-**	**4,150,213,006**	**3,738,467,530**	**-**	**3,738,467,530**
Total credit risk exposure	**9,063,078,660**	**(73,602,174)**	**8,989,476,486**	**7,991,965,825**	**(55,587,418)**	**7,936,378,407**

* The impairment of FVOCI is recognized in other comprehensive income for the financial year 2020 (See note 23).

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii. Expected credit loss measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

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

“Stage 1” comprises of assets that have not suffered any significant deterioration of credit quality since initial recognition;

“Stage 2” comprises of assets that have suffered significant deterioration since initial recognition;

“Stage 3” concerns all assets where a default has occurred.

Under this general approach, the ECL for an asset is calculated over different time horizons according to the stage it was assigned to:

ECL over one year for assets in stage 1;

ECL over remaining lifetime for assets in stage 2 and stage 3.

The stage assignment is done according to the following rules:

Impairment: if the counterparty for the considered asset has defaulted, the asset is assigned to “Stage 3”. An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

Rating D (lower than C): Assets with this rating are currently considered to be in stage 3.

Qualitative factors: IFRS 9 has advised to take into account qualitative factors such as watch lists or financial analysis by experts. Similarly to the previous case, there is also a second time threshold. In case the repayment of an asset is overdue for more than 30 days and less than 90 days, it is assigned to “Stage 2”.

Relative Threshold: if the counterparty has suffered significant deterioration in credit risk, that is if its credit quality since initial recognition has dropped more than a specific pre-defined relative threshold, then it is assigned to “Stage 2”.

All assets that are not in the previous cases are assigned to “Stage 1”.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible.

Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes.

The Bank has three main portfolios, which are:

- Loan portfolio

  This category includes wholesale and individual/retail accounts loans.

- Treasury portfolio

  This category includes bonds, treasury bills and equity accounts.

- Project and Structured Finance

  This category includes letters of credit and bank guarantees.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

Significant Deterioration through relative threshold
The bank computes a relative threshold matrix that gives for each rating a prediction of what the expected rating for each time horizon should be.

Through-the-cycle (TTC) transition matrices give the percentage of counterparties which moved from one rating to another over a specific time interval. TTC matrices over a 10 year horizon are taken since this gives a comfortable horizon for a relative threshold.

Credit risk grading
The bank relied on proxies provided by external credit rating agencies. External TTC transition matrices for all European entities provided by international credit rating agencies are used. The following steps are then carried out:

First the mapping between the internal and external rating systems is performed;

From there, a TTC transition matrix with the number of observations (number of entities that changed from one specific rating to another) is used and a weighted average per mapped rating is computed in order to compute the internal ratings TTC matrix.

Forward-looking information incorporated in the ECL models
The TTC PDs are transformed into PIT PDs by taking into account the macroeconomic environment through a set of macroeconomic variables: real GDP growth rate, inflation rate and unemployment rate. These variables were sourced from the IMF[2], including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020. The first PD model includes a simplified form of the Merton model. In this framework, a systemic variable X_t which represents the macroeconomic environment is introduced. The sensitivity of each rating's PD to this variable is obtained via the calibration of the ρ parameter. The model takes into account the global default rate of each year and calculates X_t for each year, which is then regressed over with the different combinations of macro-economic variables. Using projections of the macroeconomic variables, the regression formula is used to deduce projections of X_t, and based on the one factor Merton model the PIT PDs are obtained. The second PD model considers the default rate per rating in each year, which enables the calibration of the sensitivity ρ_i for all ratings.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD); and
3. Exposure at default (EAD).

ECL is estimated under Baseline (typical), Best (favourable) and Adverse (unfavourable) conditions.
The only Point-in-Time estimates are for Probability of Default. LGD assumes Basel estimates and EAD uses amortisation type payment schedules. Once all components (PD, EAD, LGD) have been computed, the ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 52%, 18% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

1. Probability of Default

The probability of default has been modelled on the basis of the one factor Merton model. The approach to model the point-in-time forward looking and macroeconomic PD is divided into three different steps: - The first step is to calibrate the cumulated TTC PDs; - The second step is to include the forward looking information and transform the cumulated TTC PDs to PIT PDs; - The final step is to describe the conversion of PIT PDs to TTC PDs after a certain horizon.
Default rates are essential for the calculation of Point-in-Time Probability of Default (PD) and for the estimation of ECL.
The Bank used external default rate data for each relevant sector and region. A number of macro-economic variables sourced from the IMF2, including historical data spanning 1990 – 2016 and baseline projections for 2017 – 2020, were considered in modelling of PIT PD.
For non-rated accounts, PD are estimated using the nominal weighted average PD of all rated accounts within the same rating system. However, this does not guarantee that the PD for non-rated accounts in stage 2 (NRB2) is higher than for stage 1 (NRB1). To account for the higher risk of NRB2 exposures, the Bank mapped NRB2 to an equivalent risk grade with similar PIT PD as the PD for NRB1 exposure for a time horizon equal to the average residual lifetime of all unexpired accounts within the same sector.

2. Loss Given Default (LGD)

Loss Given Default is defined as the percentage of the Exposure at Default (EAD) that is ultimately lost in case of default of a counterparty, after all possible recoveries through selling of collateral or collection procedures. As regards to the loan to customers' portfolio, LGD is modelled using historical recovery rates or using the collateral value of the asset. The bank has considered information about past collateral value, time in default, time to sale, sale costs, in calculating the LGD.

A defaulted collateralised asset can move through different stages post default. The bank can seize the collateral ("Possession") in order to sell it ("Sale") and make up for the potential loss due to the default of the counterparty. Possession of collateral can occur voluntarily ("handing over the keys") or via litigation (court proceedings). And sales may be carried out by the institution (after obtaining possession) or by means of a customer self-sale. On the date of collateral sale, any shortfall is recognised in the P&L (write-off expense) and subsequent recoveries (debt collection either internal or external) may occur. Write-off occurs when there is a shortfall on collateral sale. Closed and cures occur when the full outstanding is recovered with the former resulting in the account closing (i.e. no lending). Cure refers to both closed and curing accounts. For the unsecured/uncollateralised types of assets the value of the collateral is supposed to be 0 and the actual model is still applied taking into account pure debt collection. In the light of this recovery process, the Bank defines LGD as the expected severity (loss) given a default.

As regards to the non-loan accounts (Treasury and Project and Structured Finance accounts), the Bank assumed the fixed Based Estimates. The Banks mapped each collateral type in BKT portfolios to the Basel LGD segments1, each with their own LGD estimate: Eligible financial collateral (0%), secured (25%) and unsecured (45%). For the Treasury and Project and Structured Finance portfolios, LGD values are assigned on an asset type level.

3. Exposure at Default (EAD)

An asset can have a customised, linear or bullet amortisation type. For assets with a customised amortisation type, repayment schedules are used to estimate EAD. For assets without any amortisation type, a linear repayment plan is assumed. For off balance sheet exposures, it is required that provisions are held against undrawn commitments. BKT's calculation of the credit conversion factor (CCF) values is in line with Basel II requirements under the standardised approach: "Commitments with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." Early repayment/refinance assumptions are also incorporated into the calculation. However the early repayments are considered to be 0 for all assets as the Bank's historical data suggests insignificant material impact.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2020	Retail lending				Corporate lending			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020	**421,543,496**	**14,773,803**	**15,524,706**	**451,842,005**	**678,524,166**	**73,321,249**	**61,830,847**	**813,676,262**
Transfer to Stage 1 (from 2 or 3)	9,681,997	(7,320,117)	(2,361,880)	-	28,544,102	(13,510,656)	(15,033,446)	-
Transfer to Stage 2 (from 1 or 3)	(9,900,871)	10,405,010	(504,139)	-	(15,889,924)	16,128,685	(238,761)	-
Transfer to Stage 3 (from 1 or 2)	(2,938,260)	(1,436,972)	4,375,232	-	(29,889,784)	(2,221,143)	32,110,927	-
New financial assets originated or purchased	128,710,402	9,806,062	302,409	138,818,873	305,677,252	139,590,332	5,193,624	450,461,208
Derecognition of financial assets	(63,836,782)	(2,080,378)	(1,786,251)	(67,703,411)	(306,462,318)	(11,114,236)	(10,522,740)	(328,099,294)
Changes due to modifications that did not result in derecognition	(45,455,036)	(1,700,483)	(782,568)	(47,938,087)	(33,517,244)	(15,336,449)	(6,440,426)	(55,294,119)
Write-offs	(445)	-	(790,158)	(790,603)	-	-	(360,251)	(360,251)
Foreign exchange and other changes	31,135,355	1,214,865	1,218,762	33,568,982	38,127,938	2,689,127	5,710,001	46,527,066
Gross Balance at 31 December 2020	**468,939,856**	**23,661,790**	**15,196,113**	**507,797,759**	**665,114,188**	**189,546,909**	**72,249,775**	**926,910,872**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in gross carrying amount of loans to customers at amortised cost.

CHANGES IN GROSS CARRYING AMOUNT OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2019	Retail lending				Corporate lending			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019	**391,244,981**	**15,057,749**	**16,657,508**	**422,960,238**	**729,934,884**	**79,664,193**	**40,221,941**	**849,821,018**
Transfer to Stage 1 (from 2 or 3)	6,456,145	(5,598,762)	(857,383)	-	32,864,467	(32,724,414)	(140,053)	**-**
Transfer to Stage 2 (from 1 or 3)	(8,577,235)	9,377,396	(800,161)	-	(59,834,359)	59,971,674	(137,315)	**-**
Transfer to Stage 3 (from 1 or 2)	(4,291,366)	(2,254,382)	6,545,748	-	(15,347,447)	(19,196,378)	34,543,825	**-**
New financial assets originated or purchased	119,290,838	960,225	482,624	120,733,687	217,330,197	10,533,972	12,263,440	**240,127,609**
Derecognition of financial assets	(37,837,078)	(1,165,178)	(1,036,104)	(40,038,360)	(152,600,237)	(18,400,717)	(7,365,824)	**(178,366,778)**
Changes due to modifications that did not result in derecognition	(40,631,264)	(1,437,625)	(846,350)	(42,915,239)	(66,107,800)	(6,098,005)	(5,132,447)	**(77,338,252)**
Write-offs	(51)	-	(4,184,968)	(4,185,019)	-	-	(11,606,553)	**(11,606,553)**
Foreign exchange and other changes	(4,111,474)	(165,620)	(436,208)	(4,713,302)	(7,715,539)	(429,076)	(816,167)	**(8,960,782)**
Gross Balance at 31 December 2019	**421,543,496**	**14,773,803**	**15,524,706**	**451,842,005**	**678,524,166**	**73,321,249**	**61,830,847**	**813,676,262**

The gross carrying amounts include principal and interest. Unamortized deferred fee is not included.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in allowance of loans to customers at amortised cost

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2020	Retail lending				Corporate lending			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**1,715,079**	**349,460**	**5,483,251**	**7,547,790**	**17,214,942**	**9,727,862**	**17,877,978**	**44,820,782**
Transfer to Stage 1 (from 2 or 3)	886,636	(189,416)	(866,790)	(169,570)	713,636	(1,345,574)	(4,406,666)	(5,038,604)
Transfer to Stage 2 (from 1 or 3)	(36,201)	182,685	(126,751)	19,733	(288,065)	370,473	(40,736)	41,672
Transfer to Stage 3 (from 1 or 2)	(12,706)	(21,956)	1,119,163	1,084,501	(976,508)	(203,630)	8,119,134	6,938,996
New financial assets originated or purchased	880,507	308,350	179,421	1,368,278	9,670,405	15,807,153	4,349,360	29,826,918
Derecognition of financial assets	(371,853)	(40,648)	(574,830)	(987,331)	(9,653,764)	(690,552)	(2,613,505)	(12,957,821)
Changes due to modifications that did not result in derecognition	(2)	-	(593,005)	(593,007)	-	-	(100,450)	(100,450)
Write-offs	(547,902)	233,827	466,356	152,281	972,038	(1,078,330)	(1,528,440)	(1,634,732)
Foreign exchange and other changes	208,290	42,315	422,792	673,397	1,117,119	112,476	(1,529,242)	(299,647)
Allowance at 31 December 2020	**2,721,848**	**864,617**	**5,509,607**	**9,096,072**	**18,769,803**	**22,699,878**	**20,127,433**	**61,597,114**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in allowance of loans to customers at amortised cost

ALLOWANCE OF LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2019	Retail lending				Corporate lending			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019	**1,855,013**	**432,726**	**5,256,969**	**7,544,708**	**32,657,684**	**4,675,746**	**7,627,870**	**44,961,300**
Transfer to Stage 1 (from 2 or 3)	339,439	(189,567)	(313,885)	(164,013)	1,023,708	(1,313,003)	(36,154)	(325,449)
Transfer to Stage 2 (from 1 or 3)	(30,072)	191,968	(132,918)	28,978	(6,703,716)	7,475,041	(31,228)	740,097
Transfer to Stage 3 (from 1 or 2)	(19,396)	(57,707)	1,539,237	1,462,134	(2,482,964)	(509,355)	8,968,827	5,976,508
New financial assets originated or purchased	691,389	29,672	246,226	967,287	7,148,996	611,351	5,473,597	13,233,944
Derecognition of financial assets	(215,005)	(14,417)	(426,085)	(655,507)	(2,487,252)	(1,837,716)	(1,526,750)	(5,851,718)
Changes due to modifications that did not result in derecognition	(800,388)	4,454	916,516	120,582	(11,751,921)	769,940	345,171	(10,636,810)
Write-offs	(1)	-	(1,614,376)	(1,614,377)	-	-	(2,764,379)	(2,764,379)
Foreign exchange and other changes	(105,900)	(47,669)	11,567	(142,002)	(189,593)	(144,142)	(178,976)	(512,711)
Allowance at 31 December 2019	**1,715,079**	**349,460**	**5,483,251**	**7,547,790**	**17,214,942**	**9,727,862**	**17,877,978**	**44,820,782**

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2020	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**709,820,818**	**2,241,716**	**-**	**712,062,534**	**1,402,384,320**	**-**	**-**	**1,402,384,320**
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	**-**
New financial assets originated or purchased	523,029,432	12,266,958	-	535,296,390	854,630,098	6,143,348	-	**860,773,446**
Derecognition of financial assets	(584,091,794)	(2,241,716)	-	(586,333,510)	(472,159,342)	-	-	**(472,159,342)**
Changes due to modifications that did not result in derecognition	-	-	-	-	(1,237,184)	-	-	**(1,237,184)**
Write-offs	10,780,838	-	-	10,780,838	(5,193,004)	-	-	**(5,193,004)**
Foreign exchange and other changes	157,492	-	-	157,492	65,636,439	-	-	**65,636,439**
Gross Balance at 31 December 2020	**659,696,786**	**12,266,958**	**-**	**671,963,744**	**1,844,061,327**	**6,143,348**	**-**	**1,850,204,675**

31 December 2020	Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**83,898,612**	**4,006,400**	**-**	**87,905,012**	**50,752,198**	**-**	**5,604**	**50,757,802**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	(6,133)	6,133	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	105,182,047	-	-	**105,182,047**	29,660,087	2,218,351	-	**31,878,438**
Derecognition of financial assets	-26,043,328	-4,006,400	-	**-30,049,728**	(15,991,256)	-	(6,133)	**(15,997,389)**
Changes due to modifications that did not result in derecognition	-843,053	-	-	**-843,053**	859	-	-	**859**
Write-offs	-1,275,000	-	-	**-1,275,000**	(685,422)	-	-	**(685,422)**
Foreign exchange and other changes	5,272,690	-	-	**5,272,690**	2,327,799	-	529	**2,328,328**
Gross Balance at 31 December 2020	**166,191,968**	**-**	**-**	**166,191,968**	**66,058,132**	**2,224,484**	**-**	**68,282,616**

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

CHANGES IN GROSS CARRYING AMOUNT OF FINANCIAL ASSETS WHERE IMPAIRMENT REQUIREMENTS APPLY (OTHER THAN LOANS TO CUSTOMERS)

31 December 2019	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**548,280,708**	**-**	**-**	**548,280,708**	**1,259,097,212**	**2,839,455**	**-**	**1,261,936,667**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	2,839,455	(2,839,455)	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	661,974,207	2,241,716	-	**664,215,923**	557,612,088	-	-	**557,612,088**
Derecognition of financial assets	(496,091,390)	-	-	**(496,091,390)**	(415,530,700)	-	-	**(415,530,700)**
Changes due to modifications that did not result in derecognition	50,485	-	-	**50,485**	(2,081,627)	-	-	**(2,081,627)**
Write-offs	(3,403,840)	-	-	**(3,403,840)**	(49,778,115)	-	-	**(49,778,115)**
Foreign exchange and other changes	(989,352)	-	-	**(989,352)**	50,226,007	-	-	**50,226,007**
Gross Balance at 31 December 2019	**709,820,818**	**2,241,716**	**-**	**712,062,534**	**1,402,384,320**	**-**	**-**	**1,402,384,320**

31 December 2019	Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**179,474,268**	**4,006,400**	**-**	**183,480,668**	**82,526,839**	**-**	**-**	**82,526,839**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	(5,604)	-	5,604	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-	**-**	-	-	-	**-**
New financial assets originated or purchased	6,162,969	-	-	**6,162,969**	23,277,144	-	-	**23,277,144**
Derecognition of financial assets	(41,489,891)	-	-	**(41,489,891)**	(53,873,936)	-	-	**(53,873,936)**
Changes due to modifications that did not result in derecognition	186,167	-	-	**186,167**	56,043	-	-	**56,043**
Write-offs	-	-	-	**-**	(1,532,289)	-	-	**(1,532,289)**
Foreign exchange and other changes	(60,434,901)	-	-	**(60,434,901)**	304,001	-	-	**304,001**
Gross Balance at 31 December 2019	**83,898,612**	**4,006,400**	**-**	**87,905,012**	**50,752,198**	**-**	**5,604**	**50,757,802**

The gross carrying amounts include only Nominal amounts. Unamortized discount; Accrued interest and Marked to market gain/ (loss) are not included.

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

Reconciliation of the accumulated impairment allowance of financial assets where impairment requirements apply (other than loans to customers)

31 December 2020	Due from Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**242,247**	**11,537**	**-**	**253,784**
	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
New financial assets originated or purchased	980,359	97,697	-	**1,078,056**
Derecognition of financial assets	(172,640)	(11,537)	0	**(184,177)**
Write-offs	-	-	-	-
Changes in models/risk parameters	61,085	-	-	**61,085**
Foreign exchange and other movements	4,331	-	-	**4,331**
Allowance at 31 December 2020	**1,115,382**	**97,697**	**0**	**1,213,079**

31 December 2020	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**182,471**	**117**	**-**	**182,588**	**670,679**	**-**	**-**	**670,679**
	-	-	-	-	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-	-	-	-	-
New financial assets originated or purchased	471,776	-	-	**471,776**	519,783	3,982	-	**523,765**
Derecognition of financial assets	(35,744)	0	0	**(35,744)**	(144,512)	0	0	**(144,512)**
Write-offs	-	-	-	-	-	-	-	-
Changes in models/risk parameters	127,942	-	-	**127,942**	(168,524)	-	-	**(168,524)**
Foreign exchange and other movements	24,242	(117)	-	**24,125**	45,613	-	-	**45,613**
Allowance at 31 December 2020	**770,687**	**0**	**0**	**770,687**	**923,039**	**3,982**	**0**	**927,021**

The impairment of FVOCI is recognized in other comprehensive income for the financial year 2020 (See note 23).

5. Financial risk management (continued)

(b) Credit Risk (continued)

ii Expected credit loss measurement (continued)

The following table sets out the changes in in gross carrying amount of financial assets where impairment requirements apply (other than loans to customers).

Reconciliation of the accumulated impairment allowance of financial assets where impairment requirements apply (other than loans to customers)

31 December 2019	Due from Banks				Investment Securities at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**318,588**	**-**	**-**	**318,588**	**1,784,707**	**263,249**	**-**	**2,047,956**
	-	-	-	-	26,012	(263,249)	-	**(237,237)**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-		-	-	-	
New financial assets originated or purchased	123,043	11,537	-	**134,580**	821,393	-	-	**821,393**
Derecognition of financial assets	(190,464)	-	-	**(190,464)**	(318,533)	-	-	**(318,533)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	(7,283)	-	-	**(7,283)**	(190,287)	-	-	**(190,287)**
Foreign exchange and other movements	(1,637)	-	-	**(1,637)**	7,551	-	-	**7,551**
Allowance at 31 December 2019	**242,247**	**11,537**	**-**	**253,784**	**2,130,843**	**-**	**-**	**2,130,843**

31 December 2019	Debt Investment Securities at amortised cost				Loan Commitments and financial guarantee contracts			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**250,637**	**5,603**	**-**	**256,240**	**853,998**	**-**	**-**	**853,998**
	-	-	-	**-**	(359)	-	359	**-**
Transfer to Stage 1 (from 2 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 2 (from 1 or 3)	-	-	-	**-**	-	-	-	**-**
Transfer to Stage 3 (from 1 or 2)	-	-	-		-	-	-	
New financial assets originated or purchased	15,923	-	-	**15,923**	150,626	-	-	**150,626**
Derecognition of financial assets	(41,134)	(5,486)	-	**(46,620)**	(504,048)	-	-	**(504,048)**
Write-offs	-	-	-	**-**	-	-	-	**-**
Changes in models/risk parameters	(19,869)	-	-	**(19,869)**	170,078	-	(359)	**169,719**
Foreign exchange and other movements	(23,086)	-	-	**(23,086)**	384	-	-	**384**
Allowance at 31 December 2019	**182,471**	**117**	**-**	**182,588**	**670,679**	**-**	**-**	**670,679**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis

The following table sets out information about the credit quality of loan to customers in 2020 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

LOANS TO CUSTOMERS BY ASSET QUALITY AT AMORTISED COST

	Stage 1					Stage 2				
31 December 2020	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**
Retail lending	**432,700,947**	**33,523,380**	**466,224,327**	**2,644,127**	**463,580,200**	**1,916,054**	**21,745,737**	**23,661,791**	**863,247**	**22,798,544**
Mortgage	254,408,283	24,087,642	278,495,925	1,149,205	277,346,720	1,371,164	13,568,466	14,939,630	577,589	14,362,041
Consumer	171,087,498	8,576,238	179,663,736	1,386,111	178,277,625	544,611	7,981,267	8,525,878	274,546	8,251,332
Credit cards	7,205,166	859,500	8,064,666	108,811	7,955,855	279	196,004	196,283	11,112	185,171
Corporate lending	**650,917,859**	**11,986,687**	**662,904,546**	**18,718,776**	**644,185,770**	**89,663,856**	**99,883,053**	**189,546,909**	**22,712,989**	**166,833,920**
Corporate	574,173,757	4,536,208	578,709,965	16,127,402	562,582,563	84,328,653	73,750,083	158,078,736	20,420,577	137,658,159
SME	47,910,157	3,628,050	51,538,207	1,426,643	50,111,564	3,469,496	18,040,335	21,509,831	1,666,456	19,843,375
Micro	28,833,945	3,822,429	32,656,374	1,164,731	31,491,643	1,865,707	8,092,635	9,958,342	625,956	9,332,386
Total	**1,083,618,806**	**45,510,067**	**1,129,128,873**	**21,362,903**	**1,107,765,970**	**91,579,910**	**121,628,790**	**213,208,700**	**23,576,236**	**189,632,464**
Off balance sheet	**-**	**-**	**-**	**226,692**						
Retail Credit cards	-	-	-	163,860						
Business Credit cards	-	-	-	62,832						

	Stage 3						
31 December 2020	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**	**Total net amount at amortised cost**	**Value of collateral**
Retail lending	**1,789,108**	**13,407,008**	**15,196,116**	**5,424,838**	**9,771,278**	**496,150,022**	**685,442,555**
Mortgage	1,654,168	7,090,408	8,744,576	2,106,611	6,637,965	298,346,726	498,555,667
Consumer	99,851	4,958,992	5,058,843	2,409,377	2,649,466	189,178,423	186,886,888
Credit cards	35,089	1,357,608	1,392,697	908,850	483,847	8,624,873	-
Corporate lending	**37,577,690**	**34,672,086**	**72,249,776**	**20,100,717**	**52,149,059**	**863,168,749**	**1,452,366,922**
Corporate	30,500,283	26,238,883	56,739,166	16,547,749	40,191,417	740,432,139	1,121,888,608
SME	5,075,167	4,496,441	9,571,608	1,931,338	7,640,270	77,595,209	200,936,051
Micro	2,002,240	3,936,762	5,939,002	1,621,630	4,317,372	45,141,401	129,542,263
Total	**39,366,798**	**48,079,094**	**87,445,892**	**25,525,555**	**61,920,337**	**1,359,318,771**	**2,137,809,477**

Past due related to each stage is referred as follows:
Stage 1: Past due 1-30 dpd, otherwise Non Past Due, Stage 2: Past due 31-90 dpd, otherwise Non Past Due, Stage 3: Past due over 90 dpd, otherwise Non Past Due.

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis

The following table sets out information about the credit quality of loan to customers in 2019 by asset quality at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

LOANS TO CUSTOMERS BY ASSET QUALITY AT AMORTISED COST

	Stage 1					Stage 2				
31 December 2019	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**	**Non Past Due**	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**
Retail lending	**388,957,000**	**29,936,085**	**418,893,085**	**1,645,722**	**417,247,363**	**648,526**	**14,125,276**	**14,773,802**	**348,040**	**14,425,762**
Mortgage	226,835,574	21,496,185	248,331,759	544,929	247,786,830	540,676	10,569,722	11,110,398	293,856	10,816,542
Consumer	152,815,281	7,882,914	160,698,195	1,004,297	159,693,898	107,850	3,287,096	3,394,946	47,184	3,347,762
Credit cards	9,306,145	556,986	9,863,131	96,496	9,766,635	-	268,458	268,458	7,000	261,458
Corporate lending	**655,141,053**	**21,450,258**	**676,591,311**	**17,179,447**	**659,411,864**	**18,737,808**	**54,583,441**	**73,321,249**	**9,727,619**	**63,593,630**
Corporate	559,642,541	14,163,057	573,805,598	14,104,264	559,701,334	14,630,614	49,924,037	64,554,651	9,135,466	55,419,185
SME	58,970,991	4,591,393	63,562,384	1,823,210	61,739,174	3,508,296	1,812,482	5,320,778	327,678	4,993,100
Micro	36,527,521	2,695,808	39,223,329	1,251,973	37,971,356	598,898	2,846,922	3,445,820	264,475	3,181,345
Total	**1,044,098,053**	**51,386,343**	**1,095,484,396**	**18,825,169**	**1,076,659,227**	**19,386,334**	**68,708,717**	**88,095,051**	**10,075,659**	**78,019,392**
Off balance sheet	**-**	**-**	**-**	**291,424**						
Retail Credit cards	-	-	-	242,026						
Business Credit cards	-	-	-	49,398						

31 December 2019	Stage 3					**Total net amount at amortised cost**	**Value of collateral**
	Non Past Due	**Past due**	**Total**	**Allowance**	**Total Carrying Amount**		
Retail lending	**2,918,127**	**12,606,578**	**15,524,705**	**5,312,002**	**10,212,703**	**441,885,828**	**545,287,152**
Mortgage	2,598,078	6,983,731	9,581,809	2,384,205	7,197,604	265,800,976	409,497,139
Consumer	304,791	4,515,699	4,820,490	2,116,124	2,704,366	165,746,026	135,790,013
Credit cards	15,258	1,107,148	1,122,406	811,673	310,733	10,338,826	-
Corporate lending	**33,656,025**	**28,174,822**	**61,830,847**	**17,864,318**	**43,966,529**	**766,972,023**	**1,082,567,191**
Corporate	29,805,034	19,448,512	49,253,546	15,196,131	34,057,415	649,177,934	845,475,116
SME	2,254,604	5,334,798	7,589,402	1,363,476	6,225,926	72,958,200	144,665,147
Micro	1,596,387	3,391,512	4,987,899	1,304,711	3,683,188	44,835,889	92,426,928
Total	**36,574,152**	**40,781,400**	**77,355,552**	**23,176,320**	**54,179,232**	**1,208,857,851**	**1,627,854,343**

Past due related to each stage is referred as follows:
Stage 1: Past due 1-30 dpd, otherwise Non Past Due, Stage 2: Past due 31-90 dpd, otherwise Non Past Due, Stage 3: Past due over 90 dpd, otherwise Non Past Due.

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the aging analyses of loan to customers in 2020 by business lines' products.

LOANS TO CUSTOMERS AT AMORTISED COST

Retail lending

31 December 2020	Mortgage				Consumer				Credit cards			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Current	253,358,615	990,908	940,730	**255,290,253**	169,748,038	457,023	32,328	**170,237,389**	7,105,911	233	14,800	**7,120,944**
1 - 30 days	23,988,105	289,432	55,670	**24,333,207**	8,529,587	50,953	23,798	**8,604,338**	849,944	-	10,637	**860,581**
31 - 90 days	-	13,051,069	62,004	**13,113,073**	-	7,667,586	2,012	**7,669,598**	-	151,297	1,681	**152,978**
91 - 180 days	-	30,632	757,096	**787,728**	-	75,770	378,341	**454,111**	-	33,641	86,619	**120,260**
181 - 360 days	-	-	867,811	**867,811**	-	-	576,421	**576,421**	-	-	370,110	**370,110**
> 361 days	-	-	3,954,654	**3,954,654**	-	-	1,636,566	**1,636,566**	-	-	-	-
Total	**277,346,720**	**14,362,041**	**6,637,965**	**298,346,726**	**178,277,625**	**8,251,332**	**2,649,466**	**189,178,423**	**7,955,855**	**185,171**	**483,847**	**8,624,873**
Value of collateral	546,370,508	13,607,161	16,809,871	**498,555,667**	546,370,508	13,607,161	16,809,871	**186,886,888**	-	-	-	-

LOANS TO CUSTOMERS AT AMORTISED COST

Corporate lending

31 December 2020	Large Corporate				SME Corporate				Micro Corporate			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Current	558,359,730	69,575,568	22,529,727	**650,465,025**	46,579,414	2,907,346	3,703,826	**53,190,586**	27,797,705	1,101,638	1,424,036	**30,323,379**
1 - 30 days	4,222,833	456,107	3,349	**4,682,289**	3,532,150	209,988	88,332	**3,830,470**	3,693,938	593,085	8,453	**4,295,476**
31 - 90 days	-	67,626,157	2,071	**67,628,228**	-	16,639,450	4,949	**16,644,399**	-	7,637,663	52,343	**7,690,006**
91 - 180 days	-	327	22,483	**22,810**	-	86,591	143,872	**230,463**	-	-	171,324	**171,324**
181 - 360 days	-	-	6,217,619	**6,217,619**	-	-	693,994	**693,994**	-	-	201,700	**201,700**
> 361 days	-	-	11,416,168	**11,416,168**	-	-	3,005,297	**3,005,297**	-	-	2,459,516	**2,459,516**
Total	**562,582,563**	**137,658,159**	**40,191,417**	**740,432,139**	**50,111,564**	**19,843,375**	**7,640,270**	**77,595,209**	**31,491,643**	**9,332,386**	**4,317,372**	**45,141,401**
Value of collateral	819,720,831	234,854,529	67,313,248	**1,121,888,608**	546,370,508	13,607,161	16,809,871	**200,936,051**	546,370,508	13,607,161	16,809,871	**129,542,263**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the aging analyses of loan to customers in 2019 by business lines' products.

LOANS TO CUSTOMERS AT AMORTISED COST

31 December 2019	Mortgage				Consumer				Credit cards			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Current	226,336,453	500,208	1,486,494	**228,323,155**	151,842,981	103,175	123,697	**152,069,853**	9,212,764	-	5,217	**9,217,981**
1 - 30 days	21,450,377	21,618	136,873	**21,608,868**	7,850,917	2,203	67,616	**7,920,736**	553,871	-	-	**553,871**
31 - 90 days	-	10,294,716	56,279	**10,350,995**	-	3,242,384	16,024	**3,258,408**	-	261,458	430	**261,888**
91 - 180 days	-	-	1,088,180	**1,088,180**	-	-	338,384	**338,384**	-	-	36,211	**36,211**
181 - 360 days	-	-	668,080	**668,080**	-	-	566,524	**566,524**	-	-	268,875	**268,875**
> 361 days	-	-	3,761,698	**3,761,698**	-	-	1,592,121	**1,592,121**	-	-	-	**-**
Total	**247,786,830**	**10,816,542**	**7,197,604**	**265,800,976**	**159,693,898**	**3,347,762**	**2,704,366**	**165,746,026**	**9,766,635**	**261,458**	**310,733**	**10,338,826**
Value of collateral	378,127,398	19,429,063	11,940,678	**409,497,139**	124,431,730	5,798,128	5,560,155	**135,790,013**	-	-	-	-

LOANS TO CUSTOMERS AT AMORTISED COST

Corporate lending

31 December 2019	Large Corporate				SME Corporate				Micro Corporate			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Current	546,370,508	13,607,161	16,809,871	**576,787,540**	57,460,246	2,297,191	1,000,982	**60,758,419**	35,361,321	521,458	916,019	**36,798,798**
1 - 30 days	13,330,826	275,820	3,597,124	**17,203,770**	4,278,928	937,570	12,253	**5,228,751**	2,610,035	39,406	66,417	**2,715,858**
31 - 90 days	-	41,536,204	881,138	**42,417,342**	-	1,758,339	894,399	**2,652,738**	-	2,620,481	168,767	**2,789,248**
91 - 180 days	-	-	472,114	**472,114**	-	-	1,262,646	**1,262,646**	-	-	426,576	**426,576**
181 - 360 days	-	-	1,065,185	**1,065,185**	-	-	992,964	**992,964**	-	-	253,687	**253,687**
> 361 days	-	-	11,231,983	**11,231,983**	-	-	2,062,682	**2,062,682**	-	-	1,851,722	**1,851,722**
Total	**559,701,334**	**55,419,185**	**34,057,415**	**649,177,934**	**61,739,174**	**4,993,100**	**6,225,926**	**72,958,200**	**37,971,356**	**3,181,345**	**3,683,188**	**44,835,889**
Value of collateral	716,789,895	76,196,667	52,488,554	**845,475,116**	118,731,001	9,491,493	16,442,653	**144,665,147**	77,195,361	7,611,206	7,620,361	**92,426,928**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2020				
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Purchased credit-impaired**	**Total**
Placements and Balances with banks at amortised cost					
Aaa to Aa3	105,750,013	-	-	-	**105,750,013**
A1 to A3	17,781,584	-	-	-	**17,781,584**
Baa1 to Baa3	200,967,056	-	-	-	**200,967,056**
Ba1 to Ba3	30,002,175	-	-	-	**30,002,175**
B1 to B3	-	-	-	-	**-**
Caa1 to Caa3	-				**-**
Unrated	56,735,878	-	-	-	**56,735,878**
Exposure before impairment	*411,236,706*	-	-	-	**411,236,706**
Loss allowance	61,310	-	-	-	**61,310**
Carrying amount	**411,175,396**	**-**	**-**	**-**	**411,175,396**
Loans to Banks at amortised cost					
Aa1 to Aa3	-	-	-	-	**-**
A1 to A3	-	-	-	-	**-**
Baa1 to Baa3	25,761,256	-	-	-	**25,761,256**
Ba1 to Ba3	61,091,553	12,272,631	-	-	**73,364,184**
B1 to B3	11,496,608	-	-	-	**11,496,608**
Caa1 to Caa3	-	-	-	-	**-**
Unrated	151,436,149		-	-	**151,436,149**
Exposure before impairment	*249,785,566*	*12,272,631*	-	-	**262,058,197**
Loss allowance	1,054,073	97,697	-	-	**1,151,770**
Carrying amount	**248,731,493**	**12,174,934**	**-**	**-**	**260,906,427**
Investment Securities at FVOCI					
Aa1 to Aa3	97,824,003	-	-	-	**97,824,003**
A1 to A3	85,435,619	-	-	-	**85,435,619**
Baa1 to Baa3	159,887,299	-	-	-	**159,887,299**
Ba1 to Ba3	141,968,769	-	-	-	**141,968,769**
B1 to B3	1,355,245,191	-	-	-	**1,355,245,191**
Caa1 to Caa3	3,335,226	-	-	-	**3,335,226**
Unrated	102,822,266	-	-	-	**102,822,266**
Exposure before impairment	*1,946,518,373*	-	-	-	**1,946,518,373**
Loss allowance *	-	-	-	-	**-**
Carrying amount	**1,946,518,373**	**-**	**-**	**-**	**1,946,518,373**
Investment Securities at Amortised Cost					
Aa1 to Aa3	-	-	-	-	**-**
A1 to A3	12,284,754	-	-	-	**12,284,754**
Baa1 to Baa3	1,844,150	-	-	-	**1,844,150**
Ba1 to Ba3	109,641,304	-	-	-	**109,641,304**
B1 to B3	-	-	-	-	**-**
Unrated	41,361,053	-	-	-	**41,361,053**
Exposure	*165,131,261*	-	-	-	**165,131,261**
Loss allowance	770,687	-	-	-	**770,687**
Carrying amount	**164,360,574**	**-**	**-**	**-**	**164,360,574**

* The impairment of FVOCI is recognized in other comprehensive income for the financial year 2020 (See note 23).

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality of financial assets, other than loans to customers, measured at amortised cost, FVOCI debt investments in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2019				
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Purchased credit-impaired**	**Total**
Placements and Balances with banks at amortised cost					
Aa1 to Aa3	62,389,846	-	-	-	**62,389,846**
A1 to A3	68,652,324	-	-	-	**68,652,324**
Baa1 to Baa3	364,958,080	-	-	-	**364,958,080**
Ba1 to Ba3	50,024,939	-	-	-	**50,024,939**
B1 to B3	-	-	-	-	**-**
Caa1 to Caa3	12,372,521				**12,372,521**
Unrated	25,053,391	-	-	-	**25,053,391**
Exposure before impairment	*583,451,101*	-	-	-	**583,451,101**
Loss allowance	18,151	-	-	-	**18,151**
Carrying amount	**583,432,950**	-	-	-	**583,432,950**
Loans to Banks at amortised cost					
Aa1 to Aa3	-	-	-	-	**-**
A1 to A3	7,002,865	-	-	-	**7,002,865**
Baa1 to Baa3	16,224,369	-	-	-	**16,224,369**
Ba1 to Ba3	46,544,614	-	-	-	**46,544,614**
B1 to B3	57,533,342	-	-	-	**57,533,342**
Caa1 to Caa3	-	-	-	-	**-**
Unrated	-	2,243,939	-	-	**2,243,939**
Exposure before impairment	*127,305,190*	2,243,939	-	-	**129,549,129**
Loss allowance	223,941	11,537	-	-	**235,478**
Carrying amount	**127,081,249**	2,232,402	-	-	**129,313,651**
Investment Securities at FVOCI					
Aa1 to Aa3	4,081,441	-	-	-	**4,081,441**
A1 to A3	49,855,627	-	-	-	**49,855,627**
Baa1 to Baa3	99,754,002	-	-	-	**99,754,002**
Ba1 to Ba3	72,144,825	-	-	-	**72,144,825**
B1 to B3	1,135,215,978	-	-	-	**1,135,215,978**
Caa1 to Caa3	3,906,395	-	-	-	**3,906,395**
Unrated	117,723,830	-	-	-	**117,723,830**
Exposure before impairment	*1,482,682,098*	-	-	-	**1,482,682,098**
Loss allowance	2,127,530	-	-	-	**2,127,530**
Carrying amount	**1,480,554,568**	**-**	**-**	**-**	**1,480,554,568**
Investment Securities at Amortised Cost					
Aa1 to Aa3	-	-	-	-	**-**
A1 to A3	-	-	-	-	**-**
Baa1 to Baa3	-	-	-	-	**-**
Ba1 to Ba3	5,622,929	-	-	-	**5,622,929**
B1 to B3	55,266,081	-	-	-	**55,266,081**
Unrated	26,582,764	-	-	-	**26,582,764**
Exposure	*87,471,774*	-	-	-	**87,471,774**
Loss allowance	182,092	-	-	-	**182,092**
Carrying amount	**87,289,682**	**-**	**-**	**-**	**87,289,682**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

Credit quality of financial assets other than loan and advances to customers, based on the internal rating system of the Bank is categorised as follows:

31 December 2020	Cash and balances with Central Bank	Due from other banks	Investment securities	Other Assets	Total
Good	465,266,853	817,605,653	2,185,679,756	12,546,160	3,481,098,422
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**465,266,853**	**817,605,653**	**2,185,679,756**	**12,546,160**	**3,481,098,422**

31 December 2019	Cash and balances with Central Bank	Due from other banks	Investment securities	Other Assets	Total
Good	380,047,094	1,003,102,634	1,595,645,317	11,204,999	2,990,000,044
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**380,047,094**	**1,003,102,634**	**1,595,645,317**	**11,204,999**	**2,990,000,044**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	30,499,620	2,859	-	**30,502,479**
Satisfactory (rating B&C)	485,644,193	88,582,828	47,307	**574,274,328**
Watch list (higher risk) (rating D lower than C)	-	-	30,454,778	**30,454,778**
Default (Lower than D and over 90 days past due)	-	467	26,234,612	**26,235,079**
Total Rated	*516,143,813*	*88,586,154*	*56,736,697*	***661,466,664***
Non Rated	62,566,152	69,492,582	2,469	**132,061,203**
Total gross amount	**578,709,965**	**158,078,736**	**56,739,166**	**793,527,867**
Loss allowance	16,127,402	20,420,577	16,547,749	**53,095,728**
Carrying amount	562,582,563	137,658,159	40,191,417	**740,432,139**
Collateral held for credit impaired assets & assets at FVPL	**819,720,831**	**234,854,529**	**67,313,248**	**1,121,888,608**
SME Corporate				
Strong (rating A)	2,260,414	344,297	-	**2,604,711**
Satisfactory (rating B&C)	47,216,764	20,547,496	45,046	**67,809,306**
Watch list (higher risk) (rating D lower than C)	-	-	4,994,313	**4,994,313**
Default (Lower than D and over 90 days past due)	-	90,604	4,494,287	**4,584,891**
Total Rated	*49,477,178*	*20,982,397*	*9,533,646*	***79,993,221***
Non Rated	2,061,029	527,434	37,962	**2,626,425**
Total gross amount	**51,538,207**	**21,509,831**	**9,571,608**	**82,619,646**
Loss allowance	1,426,643	1,666,456	1,931,338	**5,024,437**
Carrying amount	**50,111,564**	**19,843,375**	**7,640,270**	**77,595,209**
Collateral held for credit impaired assets & assets at FVPL	120,310,598	57,517,174	23,108,279	**200,936,051**
Micro Corporate				
Strong (rating A)	2,860,297	169,356	-	**3,029,653**
Satisfactory (rating B&C)	20,271,944	7,797,410	29,922	**28,099,276**
Watch list (higher risk) (rating D lower than C)	-	-	1,909,477	**1,909,477**
Default (Lower than D and over 90 days past due)	-	-	3,936,491	**3,936,491**
Total Rated	*23,132,241*	*7,966,766*	*5,875,890*	***36,974,897***
Non Rated	9,524,133	1,991,576	63,112	11,578,821
Total gross amount	**32,656,374**	**9,958,342**	**5,939,002**	**48,553,718**
Loss allowance	1,164,731	625,956	1,621,630	**3,412,317**
Carrying amount	**31,491,643**	**9,332,386**	**4,317,372**	**45,141,401**
Collateral held for credit impaired assets & assets at FVPL	82,872,594	35,521,245	11,148,424	**129,542,263**
OFF BALANCE SHEET				
Credit cards Loss allowance	62,832	-	-	**62,832**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the corporate portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST - CORPORATE PORTFOLIO

31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Large Corporate				
Strong (rating A)	33,273,881	-	-	**33,273,881**
Satisfactory (rating B&C)	406,052,491	55,417,567	250,000	**461,720,058**
Watch list (higher risk) (rating D lower than C)	-	-	29,532,461	**29,532,461**
Default (Lower than D and over 90 days past due)	-	-	19,448,512	**19,448,512**
Total Rated	*439,326,372*	*55,417,567*	*49,230,973*	***543,974,912***
Non Rated	134,479,226	9,137,084	22,573	**143,638,883**
Total gross amount	**573,805,598**	**64,554,651**	**49,253,546**	**687,613,795**
Loss allowance	14,104,264	9,135,466	15,196,131	**38,435,861**
Carrying amount	**559,701,334**	**55,419,185**	**34,057,415**	**649,177,934**
Collateral held for credit impaired assets & assets at FVPL	716,789,895	76,196,667	52,488,554	**845,475,116**
SME Corporate				
Strong (rating A)	2,711,480	-	13	**2,711,493**
Satisfactory (rating B&C)	57,511,325	5,019,753	65,071	**62,596,149**
Watch list (higher risk) (rating D lower than C)	-	-	2,149,857	**2,149,857**
Default (Lower than D and over 90 days past due)	-	-	5,334,798	**5,334,798**
Total Rated	*60,222,805*	*5,019,753*	*7,549,739*	***72,792,297***
Non Rated	3,339,579	301,025	39,663	**3,680,267**
Total gross amount	**63,562,384**	**5,320,778**	**7,589,402**	**76,472,564**
Loss allowance	1,823,210	327,678	1,363,476	**3,514,364**
Carrying amount	**61,739,174**	**4,993,100**	**6,225,926**	**72,958,200**
Collateral held for credit impaired assets & assets at FVPL	118,731,001	9,491,493	16,442,653	**144,665,147**
Micro Corporate				
Strong (rating A)	2,760,669	-	2,043	**2,762,712**
Satisfactory (rating B&C)	24,305,617	2,303,436	39,992	**26,649,045**
Watch list (higher risk) (rating D lower than C)	-	-	1,484,246	**1,484,246**
Default (Lower than D and over 90 days past due)	-	-	3,391,512	**3,391,512**
Total Rated	*27,066,286*	*2,303,436*	*4,917,793*	***34,287,515***
Non Rated	12,157,043	1,142,384	70,106	**13,369,533**
Total gross amount	**39,223,329**	**3,445,820**	**4,987,899**	**47,657,048**
Loss allowance	1,251,973	264,475	1,304,711	**2,821,159**
Carrying amount	**37,971,356**	**3,181,345**	**3,683,188**	**44,835,889**
Collateral held for credit impaired assets & assets at FVPL	77,195,361	7,611,206	7,620,361	**92,426,928**
OFF BALANCE SHEET				
Credit cards Loss allowance	49,398	-	-	**49,398**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2020. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO

31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults	-	30,887	7,090,408	**7,121,295**
Non Rated	278,495,925	14,908,743	1,654,168	**295,058,836**
Total gross amount	**278,495,925**	**14,939,630**	**8,744,576**	**302,180,131**
Loss allowance	1,149,205	577,589	2,106,611	**3,833,405**
Carrying amount	**277,346,720**	**14,362,041**	**6,637,965**	**298,346,726**
Collateral held for credit impaired assets & assets at FVPL	444,080,671	39,320,636	15,154,360	**498,555,667**
Consumer				
Defaults	-	77,190	4,957,828	**5,035,018**
Non Rated	179,663,736	8,448,688	101,015	**188,213,439**
Total gross amount	**179,663,736**	**8,525,878**	**5,058,843**	**193,248,457**
Loss allowance	1,386,111	274,546	2,409,377	**4,070,034**
Carrying amount	**178,277,625**	**8,251,332**	**2,649,466**	**189,178,423**
Collateral held for credit impaired assets & assets at FVPL	170,153,211	11,393,754	5,339,923	**186,886,888**
Credit_cards				
Defaults	-	34,366	1,333,452	**1,367,818**
Non Rated	8,064,666	161,917	59,245	**8,285,828**
Total gross amount	**8,064,666**	**196,283**	**1,392,697**	**9,653,646**
Loss allowance	108,811	11,112	908,850	**1,028,773**
Carrying amount	**7,955,855**	**185,171**	**483,847**	**8,624,873**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	**-**
OFF BALANCE SHEET				
Credit cards Loss allowance	163,860	-	-	**163,860**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

The following table sets out information about the credit quality loans to customers for the retail portfolio in 2019. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

DISCLOSURES BY CREDIT RISK RATING GRADES – LOANS TO CUSTOMERS AT AMORTISED COST – RETAIL PORTFOLIO

31 December 2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
Defaults	-	-	6,983,731	**6,983,731**
Non Rated	248,331,759	11,110,398	2,598,078	**262,040,235**
Total gross amount	**248,331,759**	**11,110,398**	**9,581,809**	**269,023,966**
Loss allowance	544,929	293,856	2,384,205	**3,222,990**
Carrying amount	**247,786,830**	**10,816,542**	**7,197,604**	**265,800,976**
Collateral held for credit impaired assets & assets at FVPL	378,127,398	19,429,063	11,940,678	**409,497,139**
Consumer				
Defaults	-	-	4,515,699	**4,515,699**
Non Rated	160,698,195	3,394,946	304,791	**164,397,932**
Total gross amount	**160,698,195**	**3,394,946**	**4,820,490**	**168,913,631**
Loss allowance	1,004,297	47,184	2,116,124	**3,167,605**
Carrying amount	**159,693,898**	**3,347,762**	**2,704,366**	**165,746,026**
Collateral held for credit impaired assets & assets at FVPL	124,431,730	5,798,128	5,560,155	**135,790,013**
Credit cards				
Defaults	-	-	1,107,148	**1,107,148**
Non Rated	9,863,131	268,458	15,258	**10,146,847**
Total gross amount	**9,863,131**	**268,458**	**1,122,406**	**11,253,995**
Loss allowance	96,496	7,000	811,673	**915,169**
Carrying amount	**9,766,635**	**261,458**	**310,733**	**10,338,826**
Collateral held for credit impaired assets & assets at FVPL	-	-	-	**-**
OFF BALANCE SHEET				
Credit cards Loss allowance	242,026	-	-	**242,026**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iii. Credit quality analysis (continued)

Loans with renegotiated terms

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

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

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

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

31 December 2020	Total amount of Loans	Total amount of Forborne Loans (Permanent modification)	Forborne Loans (%)
Stage 1	1,129,128,873	10,436,924	0.9%
Stage 2	213,208,700	78,032,881	36.6%
Stage 3	87,445,892	25,524,964	29.2%
Exposure before impairment	**1,429,783,465**	**113,994,769**	8.0%
Stage 1 Allowance	21,362,903	879,094	4.1%
Stage 2 Allowance	23,576,236	14,572,470	61.8%
Stage 3 Allowance	25,525,555	5,788,337	22.7%
Total net amount	**1,359,318,771**	**92,754,868**	**6.8%**
Value of collateral	2,137,809,477	122,667,493	5.7%
OFF BALANCE SHEET			
Allowance	**226,692**	**-**	**-**

FORBORNE LOANS TO CUSTOMERS ACCORDING TO THEIR CREDIT QUALITY AT AMORTISED COST

31 December 2019	Total amount of Loans	Total amount of Forborne Loans (Permanent modification)	Forborne Loans (%)
Stage 1	1,095,484,396	14,155,628	1.3%
Stage 2	88,095,051	15,879,666	18.0%
Stage 3	77,355,552	16,385,838	21.2%
Exposure before impairment	**1,260,934,999**	**46,421,132**	3.7%
Stage 1 Allowance	18,825,169	329,305	1.7%
Stage 2 Allowance	10,075,659	1,523,499	15.1%
Stage 3 Allowance	23,176,320	3,552,405	15.3%
Total net amount	**1,208,857,851**	**41,015,923**	**3.4%**
Value of collateral	1,627,854,343	86,889,769	5.3%
OFF BALANCE SHEET			
Allowance	**291,424**	**-**	**-**

5. Financial risk management (continued)

(b) Credit Risk (continued)

iv. Government Sovereign Guaranteed Loans

Based on the decision of the Council of Ministers, the Albanian Government approved the state guarantee line, in favour of the second level banks, which exercise their activity in the territory of the Republic of Albania, part of the guarantee scheme that will enable lending to cover the salaries of traders or companies, whose activity has been closed or affected by a reduction in turnover, as a result of decisions of the Council of Ministers and orders issued by the Ministry of Health and Social Protection, under management of the situation created by COVID-19.

The following table presents the number of customer accounts and associated loan values of customers under government scheme as at 31 December 2020:

Scheme	Corporate lending	SME& Micro lending	Consumer lending	Residential mortgages	Total
Government supported programme					
Number of accounts with pending applications	-	-	-	-	**-**
Number of approved accounts	45	84	-	-	**129**
Loan value of customers under the scheme ($ million)	6.12	2.37	-	-	**8.49**
% of portfolio on each segment	1.06	1.16	-	-	**1.32**

The table below sets out the gross carrying amount and corresponding ECL by stage for loans to customers subject to the government scheme:

Scheme	Stage 1	Stage 2	Stage 3	Total
Government supported programme				
Gross carrying amount ($ million)	7.71	0.12	0.66	**8.49**
% of business portfolio	1.20%	0.02%	0.10%	**1.32%**
ECL ($ million)	0.25	0.01	0.13	**0.39**
% of total business ECL	0.54%	0.01%	0.29%	**0.84%**

The amount of past-due exposures in stage 2 and stage 3 reflect the increase due to the effect of the COVID-19 pandemic and the application of moratoria and other governmental support measures (such as guaranteed loans) which tend to freeze the counting of days past due up until 31.12.2020 in accordance with decision no.33, dated 28.05.2020 of Bank of Albania.

5. Financial risk management (continued)

(b) Credit Risk (continued)

v. Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.
The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Financial Assets
- Charges over business assets such as premises, machineries, and accounts receivable;

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

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

		Loans to customers	
31 December 2020	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	1,400,148,000	1,028,001,000	2,428,149,000
Financial assets	83,406,000	898,184,000	981,590,000
Other	51,197,000	167,698,000	218,895,000
Total	**1,534,751,000**	**2,093,883,000**	**3,628,634,000**

		Loans to customers	
31 December 2019	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	869,999,694	1,257,592,649	2,127,592,343
Financial assets	33,036,410	763,637,232	796,673,642
Other	35,731,072	231,298,480	267,029,552
Total	**938,767,176**	**2,252,528,361**	**3,191,295,537**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Impaired loans and securities

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

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

Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

5. Financial risk management (continued)

(b) Credit Risk (continued)

vi. Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 31 December 2020 and 31 December 2019 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Carrying amount	9,10,11	1,359,092,079	1,208,566,427	260,906,427	129,313,651	2,185,679,756	1,595,645,317
Concentration by sector							
Corporate		860,217,800	763,285,536	-	-	278,274,808	101,269,333
Government		2,888,117	3,637,089	-	-	1,461,973,527	1,250,636,731
Banks		-	-	260,906,427	129,313,651	445,431,421	243,739,253
Retail		495,986,162	441,643,802	-	-	-	-
Total		**1,359,092,079**	**1,208,566,427**	**260,906,427**	**129,313,651**	**2,185,679,756**	**1,595,645,317**

Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Albania		848,171,053	755,551,231	-	-	1,252,952,413	1,072,119,799
Kosovo		431,754,903	342,975,996	-	-	50,793,009	73,043,439
Europe		46,816,217	59,970,926	59,649,266	42,001,029	596,208,371	385,168,588
Asia		-	-	85,597,883	16,895,078	81,195,901	9,464,343
Middle East and Africa		-	11,428,999	106,831,397	60,344,651	92,863,238	55,849,148
America		32,349,906	38,639,275	8,827,881	10,072,893	111,666,824	-
Total	9,10,11	**1,359,092,079**	**1,208,566,427**	**260,906,427**	**129,313,651**	**2,185,679,756**	**1,595,645,317**

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank’s LRM policy includes how the Bank identifies, measures, monitors and control that risk.

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

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

The LRM approach of the Bank results in positive liquidity gaps for all time stages up to one year as at 31 December 2020. This resulted mainly because of the following three assumptions:

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

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2020, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	465,266,853	-	-	-	-	465,266,853
Placement and balances with banks	461,777,709	81,385,324	13,536,193	-	-	556,699,226
Investment securities	49,284,900	132,162,916	423,908,380	1,196,833,906	383,489,654	2,185,679,756
Loans to banks	27,233	65,006	174,243,613	75,124,912	11,445,663	260,906,427
Loans to customers	44,756,678	34,490,341	306,031,646	602,187,147	371,626,267	1,359,092,079
Other assets	12,546,160	-	-	-	-	12,546,160
Total assets	**1,033,659,533**	**248,103,587**	**917,719,832**	**1,874,145,965**	**766,561,584**	**4,840,190,501**
Liabilities						
Customer deposits	2,055,546,503	272,536,917	1,152,767,038	465,918,130	35,707,809	3,982,476,397
Due to banks and financial institutions	237,029,401	52,945,425	9,526,758	16,355,943	-	315,857,527
Due to third parties	2,007,320	-	-	-	-	2,007,320
Accruals and other liabilities	14,356,718	-	-	-	913,553	15,270,271
Lease liabilities	216,364	423,838	1,688,000	7,595,748	7,622,321	17,546,271
Subordinated debt	-	-	74,581	30,667,394	-	30,741,975
Total liabilities	**2,309,156,306**	**325,906,180**	**1,164,056,377**	**520,537,215**	**44,243,683**	**4,363,899,761**
Net Position	**(1,275,506,785)**	**(77,909,440)**	**(247,095,148)**	**1,349,586,152**	**721,045,551**	**470,120,330**
Cumulative Net Position	**(1,275,506,785)**	**(1,353,416,225)**	**(1,600,511,373)**	**(250,925,221)**	**470,120,330**	**-**

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2019, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	380,047,094	-	-	-	-	380,047,094
Placement and balances with banks	780,303,260	84,768,131	7,550,581	1,167,011	-	873,788,983
Investment securities	34,338,687	78,522,586	349,991,639	850,444,431	282,347,974	1,595,645,317
Loans to banks	15,014	11,208,399	49,384,100	57,316,557	11,389,581	129,313,651
Loans to customers	43,084,158	52,878,802	341,890,486	468,515,510	302,197,471	1,208,566,427
Other assets	11,204,999	-	-	-	-	11,204,999
Total assets	**1,248,993,212**	**227,377,918**	**748,816,806**	**1,377,443,509**	**595,935,026**	**4,198,566,471**
Liabilities						
Customer deposits	1,632,373,232	258,356,737	1,070,556,631	415,523,875	32,586,604	3,409,397,079
Due to banks and financial institutions	255,603,679	54,834,329	6,613,258	20,430,748	-	337,482,014
Due to third parties	2,372,307	-	-	-	-	2,372,307
Accruals and other liabilities	15,821,854	-	-	-	929,220	16,751,074
Lease liabilities	170,034	335,803	1,448,169	5,514,754	2,492,563	9,961,323
Subordinated debt	-	-	64,138	-	28,021,447	28,085,585
Total liabilities	**1,906,341,106**	**313,526,869**	**1,078,682,196**	**441,469,377**	**64,029,834**	**3,804,049,382**
Net Position	**(657,347,894)**	**(86,148,951)**	**(329,865,390)**	**935,974,132**	**531,905,192**	**394,517,089**
Cumulative Net Position	**(657,347,894)**	**(743,496,845)**	**(1,073,362,235)**	**(137,388,103)**	**394,517,089**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio was decreased to 20% and that of individual ratios to 15%. In addition, in March 2018 BoA has increased again the minimum of liquidity ratio for foreign currencies to 20%.

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

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

	31-Dec-2020	**31-Dec-2019**
Total Liquid Assets/Total Short Term Liabilities Ratio	42.04%	51.49%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	57.54%	53.03%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	31.70%	50.45%

(d) Market risk

1) Foreign currency risk

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

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the USD equivalent amounts of monetary assets and liabilities by currency as at 31 December 2020 and 31 December 2019:

31 December 2020	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	130,872,915	20,035,315	297,274,340	17,084,283	465,266,853
Placements and balances with banks	109,966	150,889,480	371,418,729	34,281,051	556,699,226
Investment securities	1,137,247,229	391,843,713	583,608,519	72,980,295	2,185,679,756
Loans to banks	-	61,029,751	199,876,676	-	260,906,427
Loans to customers	613,513,497	71,627,262	673,951,319	1	1,359,092,079
Other assets	9,203,950	24,883	3,277,592	39,735	12,546,160
Total assets	**1,890,947,557**	**695,450,404**	**2,129,407,175**	**124,385,365**	**4,840,190,501**
Foreign exchange contracts	**1,109,381**	**6,415,579**	**115,943,876**	**6,794,162**	**130,262,998**
Liabilities					
Customer deposits	1,614,863,634	174,108,733	2,109,310,311	84,193,719	3,982,476,397
Due to banks and financial institutions	265,999,859	1,397,197	46,183,763	2,276,708	315,857,527
Due to third parties	2,007,320	-	-	-	2,007,320
Accruals and other liabilities	2,859,510	5,094,415	7,260,629	55,717	15,270,271
Lease liabilities	767,376	379,768	16,399,127	-	17,546,271
Subordinated debt	-	-	30,741,975	-	30,741,975
Total liabilities	**1,886,497,699**	**180,980,113**	**2,209,895,805**	**86,526,144**	**4,363,899,761**
Foreign exchange contracts	**2,134,657**	**98,084,627**	**4,077,688**	**25,966,026**	**130,262,998**
Net position (GAP)	**(495,118)**	**421,580,550**	**30,474,693**	**18,560,205**	**470,120,330**
Total assets / Total liabilities	99.97%	251.07%	101.38%	116.50%	110.46%
GAP / FX denominated assets		0.60	0.014	0.1416	0.09
Sensitivity analysis					
Lek depreciates by 10%		38,436,477	2,852,505	1,698,851	42,987,833
Lek depreciates by 5%		20,133,393	1,494,169	889,874	22,517,436
Lek appreciates by 5%		(22,252,697)	(1,651,450)	(983,545)	(24,887,692)
Lek appreciates by 10%		(46,977,916)	(3,486,395)	(2,076,373)	(52,540,684)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2019	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	95,580,594	18,416,107	246,180,764	19,869,629	380,047,094
Placements and balances with banks	110,775	196,460,964	649,208,323	28,008,921	873,788,983
Investment securities	993,161,951	255,595,688	268,737,624	78,150,054	1,595,645,317
Loans to banks	-	42,188,930	87,124,721	-	129,313,651
Loans to customers	569,719,087	84,093,593	554,753,747	-	1,208,566,427
Other assets	7,654,627	1,276,502	2,248,390	25,480	11,204,999
Total assets	**1,666,227,034**	**598,031,784**	**1,808,253,569**	**126,054,084**	**4,198,566,471**
Foreign exchange contracts	**-**	**11,439,385**	**102,135,595**	**3,450,727**	**117,025,707**
Liabilities					
Customer deposits	1,384,198,323	145,553,317	1,805,561,617	74,083,822	3,409,397,079
Due to banks and financial institutions	299,178,057	9,373,699	25,299,907	3,630,351	337,482,014
Due to third parties	2,372,307	-	-	-	2,372,307
Accruals and other liabilities	7,012,546	3,978,352	5,744,134	16,042	16,751,074
Lease liabilities	735,672	408,787	8,816,864	-	9,961,323
Subordinated debt	-	-	28,085,585	-	28,085,585
Total liabilities	**1,693,496,905**	**159,314,155**	**1,873,508,107**	**77,730,215**	**3,804,049,382**
Foreign exchange contracts	**224,043**	**69,642,120**	**4,835,392**	**42,324,152**	**117,025,707**
Net position (GAP)	**(27,493,914)**	**380,514,894**	**32,045,665**	**9,450,444**	**394,517,089**
Total assets / Total liabilities	98.50%	266.20%	101.71%	107.87%	110.11%
GAP / FX denominated assets		0.62	0.017	0.0730	0.09
Sensitivity analysis					
Lek depreciates by 10%		34,592,263	2,913,242	859,131	38,364,636
Lek depreciates by 5%		18,119,757	1,525,984	450,021	20,095,762
Lek appreciates by 5%		(20,027,100)	(1,686,614)	(497,392)	(22,211,106)
Lek appreciates by 10%		(42,279,433)	(3,560,629)	(1,050,049)	(46,890,111)

2) Interest rate risk

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

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.35%	-	-
Placement and balances with banks	0.35%	0.37%	-0.10%
Investment securities	3.91%	5.42%	2.27%
Loans to banks	-	3.54%	2.88%
Loans to customers	5.21%	6.70%	5.64%
Liabilities			
Customer deposits	0.54%	0.48%	0.39%
Due to banks and financial institutions	0.49%	-	2.30%
Lease Labilities	6.92%	4.23%	2.03%
Subordinated debt	-	-	5.15%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.70%	-	-
Placement and balances with banks	0.95%	1.71%	-0.31%
Investment securities	4.03%	5.77%	2.70%
Loans to banks	-	4.72%	3.41%
Loans to customers	5.01%	7.73%	5.61%
Liabilities			
Customer deposits	0.69%	0.81%	0.36%
Due to banks and financial institutions	1.02%	1.65%	2.34%
Lease Labilities	7.35%	4.41%	2.67%
Subordinated debt	-	-	5.15%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2020 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Assets						
Cash and balances with Central Bank	465,266,853	-	-	-	-	465,266,853
Placement and balances with banks	461,777,709	81,385,324	13,536,193	-	-	556,699,226
Investment securities	430,747,510	604,048,347	1,129,387,620	21,496,279	-	2,185,679,756
Loans to banks	7,353,449	18,380,562	154,526,285	69,149,523	11,496,608	260,906,427
Loans to customers	717,712,309	29,918,074	313,052,150	206,161,608	92,247,938	1,359,092,079
Total	**2,082,857,830**	**733,732,307**	**1,610,502,248**	**296,807,410**	**103,744,546**	**4,827,644,341**
Liabilities						
Customer deposits	2,055,546,503	272,536,917	1,152,767,038	465,918,130	35,707,809	3,982,476,397
Due to banks and financial institutions	237,029,401	75,329,124	3,499,002	-	-	315,857,527
Subordinated debt	-	-	30,741,975	-	-	30,741,975
Total	**2,292,575,904**	**347,866,041**	**1,187,008,015**	**465,918,130**	**35,707,809**	**4,329,075,899**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2019 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with Central Bank	380,047,094	-	-	-	-	380,047,094
Placement and balances with banks	780,303,260	84,768,131	7,550,581	1,167,011	-	873,788,983
Investment securities	293,751,983	385,864,181	908,445,938	7,583,215	-	1,595,645,317
Loans to banks	33,110,629	60,394,483	35,808,539	-	-	129,313,651
Loans to customers	612,509,490	57,792,966	393,411,383	116,188,244	28,664,344	1,208,566,427
Total	**2,099,722,456**	**588,819,761**	**1,345,216,441**	**124,938,470**	**28,664,344**	**4,187,361,472**
Liabilities						
Customer deposits	1,632,373,232	258,356,737	1,070,556,631	415,523,875	32,586,604	3,409,397,079
Due to banks and financial institutions	255,603,679	79,810,595	2,067,740	-	-	337,482,014
Subordinated debt	-	-	28,085,585	-	-	28,085,585
Total	**1,887,976,911**	**338,167,332**	**1,100,709,956**	**415,523,875**	**32,586,604**	**3,774,964,678**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

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

	31 December 2020		*31 December 2019*	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	45,656,255	43,634,775	39,341,592	33,451,438
Interest rate increases by 1.5%	34,242,191	32,726,081	29,506,194	25,088,579
Interest rate increases by 1%	22,828,127	21,817,388	19,670,796	16,725,719
Interest rate decreases by 1%	(22,828,127)	(21,817,388)	(19,670,796)	(16,725,719)
Interest rate decreases by 1.5%	(34,242,191)	(32,726,081)	(29,506,194)	(25,088,579)
Interest rate decreases by 2%	(45,656,255)	(43,634,775)	(39,341,592)	(33,451,438)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

5. Financial risk management (continued)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The new regulations "On the capital adequacy ratio" and "On the regulatory capital" entered into force in 2015 are issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio

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

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

In December 2020, BKT has reported the following consolidated ratios:

- Regulatory Capital Ratio 15.75% (December 2019: 18.62%);
- Tier 1 Capital Ratio 14.69% (December 2019: 17.37%);
- Common Equity Tier 1 Ratio 14.69% (December 2019: 17.37%).

Starting from January 2019 the Bank has started to report on a stand-alone basis as well for statutory purposes, following the conversion of BKT Kosovo into a subsidiary during 2018. Based on the regulation of BoA nr. 4/2017 "On the consolidated supervision" the Bank should also monitor its capital adequacy ratio on a stand-alone basis. The same minimum regulatory ratios mentioned above are applied.

In December 2020, BKT has reported the following stand-alone ratios:

- Regulatory Capital Ratio 18.23% (December 2019: 21.75%);
- Tier 1 Capital Ratio 16.88% (December 2019: 20.19%);
- Common Equity Tier 1 Ratio 16.88% (December 2019: 20.19%).

Risk-Weighted Assets (RWAs)

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

6. Segmental reporting

	31 December 2020			31 December 2019		
Geographical Segments	**Albania**	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Assets						
Cash and balances with Central Bank	339,660,156	125,606,697	465,266,853	302,930,526	77,116,568	380,047,094
Placement and balances with banks	519,418,718	37,280,508	556,699,226	832,043,386	41,745,597	873,788,983
Intragroup Receivables	16,998,147	47,414	-	868,902	28,188	-
Investment securities	2,026,569,630	159,110,126	2,185,679,756	1,468,257,993	127,387,324	1,595,645,317
Loans to banks	221,641,375	39,265,052	260,906,427	129,313,651	-	129,313,651
Loans to customers	927,337,177	431,754,902	1,359,092,079	865,590,430	342,975,997	1,208,566,427
Investment in associates/subsidiaries	39,063,939	-	1,036,370	25,562,994	-	904,121
Property and equipment	28,027,725	19,628,100	47,655,825	39,860,303	2,639,690	42,499,993
Intangible assets	4,159,451	-	4,159,451	4,411,195	-	4,411,195
Right-of-use assets	14,816,888	2,518,508	17,335,396	6,758,584	3,137,761	9,896,345
Deferred tax assets	2,001,042	368,421	2,369,463	1,770,836	311,091	2,081,927
Other assets	44,166,843	7,180,134	51,346,977	40,923,220	4,493,751	45,416,971
Total assets	**4,183,861,091**	**822,759,862**	**4,951,547,823**	**3,718,292,020**	**599,835,967**	**4,292,572,024**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	3,320,901,653	661,574,744	3,982,476,397	2,905,936,536	503,460,543	3,409,397,079
Due to banks and financial institutions	266,351,513	49,506,014	315,857,527	307,274,140	30,207,874	337,482,014
Intragroup Payables	47,414	16,998,147	-	28,188	868,902	-
Due to third parties	2,007,320	-	2,007,320	2,372,307	-	2,372,307
Accruals and other liabilities	57,151,053	2,508,396	59,659,449	18,312,947	1,463,382	19,776,329
Lease Liability	14,950,165	2,596,106	17,546,271	6,776,793	3,184,530	9,961,323
Subordinated debt	30,741,975	-	30,741,975	28,085,585	-	28,085,585
Total liabilities	**3,692,151,093**	**733,183,407**	**4,408,288,939**	**3,268,786,496**	**539,185,231**	**3,807,074,637**
Shareholder's equity						
Share capital	300,000,000	38,027,569	300,000,000	300,000,000	24,658,873	300,000,000
Legal reserve	34,860,433	-	34,860,433	17,091,262	-	17,091,262
Translation reserve	4,195,210	1,290,795	5,486,005	481,295	90,204	571,499
Fair value reserve and impairment of FVOCI	65,222,189	3,606,804	68,828,993	51,912,826	3,643,808	55,556,634
Retained earnings	87,432,166	46,651,287	134,083,453	80,020,141	32,257,851	112,277,992
Total shareholder's equity	**491,709,998**	**89,576,455**	**543,258,884**	**449,505,524**	**60,650,736**	**485,497,387**
Total liabilities and shareholder's equity	**4,183,861,091**	**822,759,862**	**4,951,547,823**	**3,718,292,020**	**599,835,967**	**4,292,572,024**

6. Segmental reporting (continued)

Geographical Segments	2020			2019		
	Albania	**Kosovo**	**Consolidated**	**Albania**	**Kosovo**	**Consolidated**
Interest						
Interest income	125,681,523	28,931,121	154,612,644	124,982,287	23,570,215	148,552,502
- Intragroup transactions	51,983	2,435	-	23,091	9,392	-
Interest expense	(14,814,342)	(6,137,304)	(20,951,646)	(22,817,448)	(4,645,175)	(27,462,623)
- Intragroup transactions	(2,435)	(51,983)	-	(9,392)	(23,091)	-
Net interest margin	**110,867,181**	**22,793,817**	**133,660,998**	**102,008,980**	**18,925,040**	**121,089,879**
Non-interest income, net						
Fees and commissions, net	15,544,812	5,339,550	20,884,362	14,163,214	3,973,035	18,136,249
Foreign exchange revaluation gain, net	(5,747,373)	80,824	(5,666,549)	994,669	(345,142)	649,527
Foreign exchange trading activities income, net	1,974,715	43,559	2,018,274	(3,170,780)	291,473	(2,879,307)
Securities trading gain, net	9,127,153	2,555,939	11,683,092	3,385,930	1,078,902	4,464,832
Other (expense) / income, net	8,824,426	129,710	8,954,136	(5,789,996)	(2,258,939)	(8,048,935)
Total non-interest income, net	**29,723,733**	**8,149,582**	**37,873,315**	**9,583,037**	**2,739,329**	**12,322,366**
Operating expenses						
Personnel expenses	(16,596,290)	(5,750,800)	(22,347,090)	(16,018,555)	(4,790,676)	(20,809,231)
Administrative expenses	(27,459,658)	(5,702,618)	(33,162,276)	(26,476,586)	(5,021,278)	(31,497,864)
Depreciation and amortization	(6,862,191)	(1,750,830)	(8,613,021)	(6,087,594)	(1,914,161)	(8,001,755)
Total operating expenses	**(50,918,139)**	**(13,204,248)**	**(64,122,387)**	**(48,582,735)**	**(11,726,115)**	**(60,308,850)**
Impairment of loans	(9,999,540)	(3,719,588)	(13,719,128)	(4,812,577)	(2,614,652)	(7,427,229)
Impairment of other financial instruments	(4,927,242)	(291,273)	(5,218,515)	221,585	7,556	229,141
Profit before taxes	**74,745,993**	**13,728,290**	**88,474,283**	**58,574,149**	**7,331,158**	**65,905,307**
Income tax	(11,311,869)	(1,855,374)	(13,167,243)	(9,648,842)	204,336	(9,444,506)
Net profit for the year	**63,434,124**	**11,872,916**	**75,307,040**	**48,925,307**	**7,535,494**	**56,460,801**

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2020 and 31 December 2019 are detailed as follows:

	31 December 2020	**31 December 2019**
Cash on hand	66,613,325	77,156,014
Deposits with the Central Bank of Kosovo	90,140,137	44,502,181
Bank of Albania		
Current account	18,831,688	-
Statutory reserve	289,691,130	258,389,377
Accrued interest	(9,427)	(478)
	308,513,391	258,388,899
	465,266,853	**380,047,094**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 70% of this level, provided that the monthly average is maintained.

Balances with CBK include the minimum required statutory reserve of 10% of customer deposits in Kosovo and the minimum cash deposit pledged as capital equivalency deposit.

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

	31 December 2020	**31 December 2019**
Cash and balances with Central Bank	465,266,853	380,047,094
Statutory reserve in Albania	(289,691,130)	(258,389,377)
Statutory reserve in Kosovo	(42,264,421)	(33,948,840)
Current accounts with banks	133,418,080	280,388,026
Demand deposits with banks	81,837,419	62,389,834
Placements with maturities of 3 months or less	323,421,484	511,447,550
	671,988,285	**941,934,287**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	**31 December 2019**
Placements	329,178,318	520,703,548
Cash collateral held by financial institutions	12,105,750	9,968,007
Current accounts	133,418,080	280,388,026
Demand deposits	81,837,459	62,389,846
Accrued interest	220,929	357,707
Impairment	(61,310)	(18,151)
	556,699,226	**873,788,983**

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

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

9. Investment securities

Investment securities as at 31 December 2020 and 31 December 2019 are presented as follows:

	31 December 2020	31 December 2019
Investment securities - measured at FVOCI (Treasury bills available-for-sale)	174,557,084	163,455,363
Investment securities - measured at FVOCI (Available-for-sale securities)	1,771,961,289	1,317,099,205
Investment securities - measured at FVTPL (Held-for-trading securities)	74,800,809	27,801,067
Investment securities - measured at amortised cost (Held-to-maturity securities)	164,360,574	87,289,682
Total	**2,185,679,756**	**1,595,645,317**

a) Investment securities - measured at FVOCI (Treasury bills available-for-sale)

Treasury bills available-for-sale by original maturity as at 31 December 2020 and 31 December 2019 are presented as follows:

	31 December 2020			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
6 months	3,938,985	18,260	3,567	3,960,812
12 months	168,239,365	2,026,815	330,092	170,596,272
	172,178,350	**2,045,075**	**333,659**	**174,557,084**

	31 December 2019				
	Purchase Value	Amortized discount	Marked to market gain (loss)	Impairment	Fair Value
6 months	-	-	-	-	-
12 months	161,884,236	1,480,471	177,567	(86,911)	163,455,363
	161,884,236	**1,480,471**	**177,567**	**(86,911)**	**163,455,363**

b) Investment securities - measured at FVOCI (Available-for-sale securities)

Available-for-sale securities as at 31 December 2020 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	901,562,871	3,252,299	12,887,733	33,183,984	950,886,887
USD denominated	288,418,000	402,118	3,316,096	7,682,228	299,818,484
EUR denominated	424,711,511	7,240,991	5,483,723	10,839,446	448,275,671
TRY denominated	7,079,871	-	1,921,913	(60,884)	8,940,900
CAD denominated	17,895,793	-	-	-	17,895,793
GBP denominated	38,021,025	979,964	1,044,064	1,729,395	41,774,448
SEK denominated	24,702	-	-	-	24,702
CHF denominated	4,199,742	66,564	27,120	50,978	4,344,404
	1,681,913,515	**11,941,936**	**24,680,649**	**53,425,147**	**1,771,961,289**

9. Investment securities (continued)

Available-for-sale securities as at 31 December 2019 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Impairment	Fair Value
Lek denominated	759,701,110	6,093,007	10,870,779	40,800,429	(1,253,571)	816,211,754
USD denominated	222,583,500	(408,769)	2,300,091	3,003,054	(328,050)	227,149,826
EUR denominated	183,830,780	4,039,962	3,007,572	5,109,470	(400,213)	195,587,571
TRY denominated	18,616,966	-	6,128,692	214,728	(40,677)	24,919,709
CAD denominated	6,674,054	-	-	7,733,785	(14,275)	14,393,564
GBP denominated	32,551,455	1,004,168	717,242	530,736	(3,140)	34,800,461
SEK denominated	66,113	-	-	(47,271)	(141)	18,701
CHF denominated	3,824,650	47,080	24,698	121,744	(553)	4,017,619
	1,227,848,628	**10,775,448**	**23,049,074**	**57,466,675**	**(2,040,620)**	**1,317,099,205**

c) Investment securities - measured at FVTPL (Held-for-trading securities)

Held for trading securities as at 31 December 2020 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
ALL denominated	11,576,754	(49,839)	110,807	165,534	11,803,256
USD denominated	37,510,000	2,755,596	502,589	1,257,633	42,025,818
EUR denominated	20,608,489	(239,451)	129,581	473,116	20,971,735
	69,695,243	**2,466,306**	**742,977**	**1,896,283**	**74,800,809**

Held for trading securities as at 31 December 2019 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
ALL denominated	12,978,645	281,657	169,746	64,789	13,494,837
USD denominated	-	-	-	-	-
EUR denominated	9,191,035	5,321,827	145,613	(352,245)	14,306,230
	22,169,680	**5,603,484**	**315,359**	**(287,456)**	**27,801,067**

d) Investment securities - measured at amortised cost (Held-to-maturity securities)

Held-to-maturity securities as at 31 December 2020 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Impairment	Net Value
USD denominated	50,083,494	(368,934)	463,601	(178,706)	49,999,455
EUR denominated	115,287,190	101,953	(436,043)	(591,981)	114,361,119
	165,370,684	**(266,981)**	**27,558**	**(770,687)**	**164,360,574**

9. Investment securities (continued)

Held-to-maturity securities as at 31 December 2019 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Impairment	Net Value
USD denominated	29,100,000	(824,394)	252,717	(82,467)	28,445,856
EUR denominated	58,669,064	(72,726)	347,113	(99,625)	58,843,826
	87,769,064	**(897,120)**	**599,830**	**(182,092)**	**87,289,682**

10. Loans to banks

During 2020 the Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

	31 December 2020			
	Principal	**Interest**	**Impairment**	**Total**
USD denominated	60,750,000	548,551	(268,799)	61,029,752
EUR denominated	199,910,518	849,127	(882,970)	199,876,675
	260,660,518	**1,397,678**	**(1,151,769)**	**260,906,427**

During 2019 the Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

	31 December 2019			
	Principal	**Interest**	**Impairment**	**Total**
USD denominated	42,000,000	246,937	(58,007)	42,188,930
EUR denominated	86,754,400	547,792	(177,471)	87,124,721
	128,754,400	**794,729**	**(235,478)**	**129,313,651**

11. Loans to customers

Loans to customers consisted of the following:

	31 December 2020	31 December 2019
Loans to customers, gross	1,426,013,251	1,257,363,082
Accrued interest	8,695,380	8,155,185
Less allowances for impairment on loans	(70,691,386)	(52,368,572)
Less unamortized deferred fee income	(4,925,166)	(4,583,268)
	1,359,092,079	**1,208,566,427**

Movements in the allowance for impairment on loans:

	31 December 2020	31 December 2019
At 1 January	**52,368,572**	**52,506,008**
Impairment charge for the year, net	13,719,128	7,427,229
Provision reversal of written off loans	(507,540)	(10,695,906)
POCI assets	3,900,484	3,563,955
Translation difference	1,210,742	(432,714)
At the end of the year	**70,691,386**	**52,368,572**

11. Loans to customers (continued)

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

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.20%
Loans in USD	2.50% to 10.11%

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

The classification of business loans by industry is as follows:

	31 December 2020		31 December 2019	
	USD	**%**	**USD**	**%**
Construction	205,309,816	22%	177,318,235	22%
Wholesale Trade	178,109,568	18%	105,153,072	13%
Mining and Quarrying	86,771,725	8%	61,272,810	7%
Electricity, Gas and Water Supply	77,588,988	7%	76,715,030	9%
Retail Trade	70,270,498	8%	56,589,837	7%
Transport, Storage and Communication	52,486,577	6%	48,354,085	5%
Hotels and Restaurants	44,567,417	5%	35,046,478	4%
Financial Intermediation	41,968,992	5%	42,998,383	5%
Real Estate, Renting and Business Activity	18,875,864	2%	17,601,738	2%
Agriculture, Hunting and Forestry	17,060,497	2%	15,058,314	2%
Manufacture of Food Products, Beverages	16,722,770	2%	19,699,036	2%
Manufacturing of Basic Metals and Fabricated Metal Products	15,709,071	2%	16,463,294	2%
Other Community, Social and Personal Activities	14,054,336	2%	12,913,855	2%
Education	9,603,175	1%	6,454,139	1%
Manufacturing of Other Non-metallic Products	6,597,157	1%	6,036,697	1%
Manufacture of Rubber and Plastic Products	5,869,767	1%	4,452,501	1%
Health and Social Work	4,103,993	1%	3,697,127	1%
Manufacture of Pulp, Paper and Paper Products	2,476,632	1%	3,174,888	1%
Manufacture of Wood and Wood Products	2,189,014	1%	2,847,745	1%
Personal Needs	1,183,058	1%	1,549,523	1%
Other Sectors	48,575,677	4%	93,781,453	11%
	920,094,592	**100%**	**807,178,240**	**100%**

The classification of retail loans by type is as follows:

	31 December 2020		31 December 2019	
	USD	**%**	**USD**	**%**
Home purchase	270,637,737	53%	241,661,971	53%
Super Loan	112,957,173	22%	99,322,132	22%
Home improvement	24,225,551	5%	24,169,932	5%
Overdraft and credit cards	20,993,757	4%	22,608,444	4%
Shop purchase	21,941,168	4%	17,886,926	4%
Home reconstruction	7,664,556	2%	7,528,561	2%
Home advances	2,397,871	1%	1,826,640	1%
Technical equipment	793,895	1%	633,643	1%
Car purchase	208,772	1%	192,474	1%
Other types	44,098,179	7%	34,354,119	7%
	505,918,659	**100%**	**450,184,842**	**100%**

12. Investment in associates

Investment in associates of USD 1,036,370 (31 December 2019: 904,121) represents the equivalent amount of an investment of EUR 1,199,600 into the share capital of Albania Leasing Sh.a (the "Company") at a participation ratio of 29.99%, decreased to recognise the Bank's share of the accumulated loss at USD 435,174 (31 December 2019: 440,460). The Company was established in August 2, 2013 (inception date) as a Joint Stock Company. The Company obtained the license from the Bank of Albania on April 21, 2014 and started its leasing activity in June 2014.

13. Property and equipment

Property and equipment as at 31 December 2020 and 31 December 2019 are composed as follows:

	Land, buildings and leasehold improvements	Vehicles and other equipment	Computers and electronic equipment	Office equipment	Total
Gross value					
At 1 January 2019	**48,357,858**	**7,255,793**	**23,266,299**	**2,653,158**	**81,533,108**
Additions	656,022	943,346	5,162,337	93,528	**6,855,233**
Disposals / transfers	(27,650)	(530,613)	(2,121,645)	(36,095)	**(2,716,003)**
Translation difference	(622,074)	(77,535)	(255,331)	(28,306)	**(983,246)**
At 31 December 2019	**48,364,156**	**7,590,991**	**26,051,660**	**2,682,285**	**84,689,092**
Additions	684,517	444,608	5,245,041	158,568	**6,532,734**
Disposals / transfers	-	(84,989)	(124,237)	-	**(209,226)**
Translation difference	4,065,649	621,408	1,876,087	218,015	**6,781,159**
At 31 December 2020	**53,114,322**	**8,572,018**	**33,048,551**	**3,058,868**	**97,793,759**
Accumulated depreciation					
At 1 January 2019	**(15,411,709)**	**(5,011,556)**	**(17,814,852)**	**(2,243,591)**	**(40,481,708)**
Charge for the year	(1,011,607)	(753,025)	(2,155,598)	(161,685)	**(4,081,915)**
Disposals / write offs	16,096	530,193	1,447,653	35,259	**2,029,201**
Translation difference	140,912	49,867	131,941	22,603	**345,323**
At 31 December 2019	**(16,266,308)**	**(5,184,521)**	**(18,390,856)**	**(2,347,414)**	**(42,189,099)**
Charge for the year	(1,036,666)	(788,850)	(2,462,015)	(134,117)	**(4,421,648)**
Disposals / write offs	-	84,988	124,237	-	**209,225**
Translation difference	(1,384,097)	(481,447)	(1,669,892)	(200,976)	**(3,736,412)**
At 31 December 2020	**(18,687,071)**	**(6,369,830)**	**(22,398,526)**	**(2,682,507)**	**(50,137,934)**
Net book value					
At 1 January 2019	**32,946,149**	**2,244,237**	**5,451,447**	**409,567**	**41,051,400**
At 31 December 2019	**32,097,848**	**2,406,470**	**7,660,804**	**334,871**	**42,499,993**
At 31 December 2020	**34,427,251**	**2,202,188**	**10,650,025**	**376,361**	**47,655,825**

As at 31 December 2020 the gross value of the assets which were fully depreciated and still in use was USD 32,677,525 (2019: USD 28,227,119).

14. Intangible assets

Intangible assets as at 31 December 2020 and 31 December 2019 are composed as follows:

	Software
Gross value	
At 1 January 2019	**13,065,581**
Additions	2,367,346
Translation difference	(98,617)
At 31 December 2019	**15,334,310**
Additions	1,273,450
Translation difference	1,441,463
At 31 December 2020	**18,049,223**
Accumulated depreciation	
At 1 January 2019	**(9,364,681)**
Charge for the year	(1,617,853)
Translation difference	59,420
At 31 December 2019	**(10,923,114)**
Charge for the year	(1,915,586)
Translation difference	(1,051,072)
At 31 December 2020	**(13,889,772)**
Net book value	
At 1 January 2019	**3,700,900**
At 31 December 2019	**4,411,195**
At 31 December 2020	**4,159,451**

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

15. Right of use asset & Lease Liability

The Bank has applied IFRS 16 using the modified retrospective approach. At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. The rate used for calculation of the RoU asset and Lease liability has taken into consideration the term, FX denomination, risk associated with the Bank, security, risk associated with the asset and economic environment.

The Bank uses the EUR 10,000 as a threshold and simultaneously analyses the nature of the asset in order to assess whether a leased asset qualifies for the low-value asset exemption. The types of assets that qualify for the low-value asset exemption might change over time if, due to market developments, the price of a particular type of asset changes. The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

15. Right of use asset & Lease Liability (continued)

The recognised right-of-use assets relate to the following types of assets:

	31 December 2020	31 December 2019
Buildings	17,335,099	9,873,056
Motor Vehicles	-	21,362
IT Equipment	297	1,927
Total	**17,335,396**	**9,896,345**

The depreciation expenses of right-of-use assets are amounting at 2,275,787 USD for the financial year 2020 (2,301,987 USD for the financial year 2019).

The lease liabilities are secured by the related underlying assets. Future minimum lease payments are presented as follows:

31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Lease payments	249,715	489,178	1,961,757	8,386,790	8,766,742	19,854,182
Finance charges	(33,351)	(65,340)	(273,757)	(791,042)	(1,144,421)	(2,307,911)
Net present values	**216,364**	**423,838**	**1,688,000**	**7,595,748**	**7,622,321**	**17,546,271**

31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Lease payments	195,553	385,695	1,654,022	6,179,659	3,809,041	12,223,970
Finance charges	(25,519)	(49,892)	(205,853)	(664,905)	(1,316,478)	(2,262,647)
Net present values	**170,034**	**335,803**	**1,448,169**	**5,514,754**	**2,492,563**	**9,961,323**

16. Other assets

Other assets as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020	31 December 2019
Assets acquired through legal process, net	32,185,694	29,067,091
Payments in transit	10,070,101	7,037,769
Prepaid expenses	3,928,971	4,004,655
Administration costs receivable from borrowers	2,235,686	2,400,418
Foreign exchange contracts revaluation gain	1,644,674	-
Inventory	786,806	874,284
Advances to suppliers	254,672	265,942
Dividend receivable from investment securities	-	1,275,000
Other debtors, net	240,373	491,812
	51,346,977	**45,416,971**

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

16. Other assets (continued)

The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. These assets are measured at the lower of their carrying amount and fair value less cost to sell. The Bank has estimated an impaired amount of USD 14,346,990 to the total gross amount of USD 46,532,684.
A number of these properties are leased to third parties. Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from these properties of USD 78,006 (31 December 2019: USD 74,540) is recognised in other income.

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

Other debtors, net are composed as follows:

	31 December 2020	31 December 2019
Other debtors	2,761,823	3,081,346
Provision for other debtors	(2,521,450)	(2,589,534)
Other debtors, net	**240,373**	**491,812**

Provision for other debtors represents mainly the 100% specific provision allocated for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 1,318,421).

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

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

	31 December 2020	31 December 2019
Balance at 1 January	(2,589,534)	(3,376,955)
Provision reversal/(charge)	25,000	(252,195)
Impairment charge of LG&LC	(271,427)	(655,594)
Translation difference	314,511	1,695,210
Balance at the end of the year	**(2,521,450)**	**(2,589,534)**

17. Customer deposits

Customer deposits as at 31 December 2020 and 31 December 2019 are composed as follows:

	31 December 2020	31 December 2019
Current accounts:		
Individuals	780,488,165	595,921,563
Private enterprises	516,401,248	370,948,145
State owned entities	47,012,555	47,211,174
	1,343,901,968	**1,014,080,882**
Deposits:		
Individuals	2,370,384,621	2,165,320,459
Private enterprises	121,332,810	115,282,686
State owned entities	66,403,546	56,684,259
	2,558,120,977	**2,337,287,404**
Other customer accounts:		
Individuals	41,031,086	27,003,345
Private enterprises	39,072,499	30,463,953
State owned entities	349,867	561,495
	80,453,452	**58,028,793**
	3,982,476,397	**3,409,397,079**

17. Customer deposits (continued)

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

	31 December 2020			31 December 2019		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**551,677,440**	**792,224,528**	**1,343,901,968**	**397,765,068**	**616,315,814**	**1,014,080,882**
Deposits						
On demand	113,637,811	292,243,864	405,881,675	85,370,727	237,879,535	**323,250,262**
Up to 39 days	28,736,620	36,041,802	64,778,422	24,604,463	40,394,925	**64,999,388**
40-99 days	32,991,348	60,759,486	93,750,834	32,697,629	58,702,614	**91,400,243**
100-189 days	64,114,033	95,001,572	159,115,605	65,620,034	86,489,200	**152,109,234**
190- 370 days	485,758,775	665,778,438	1,151,537,213	470,776,511	627,103,987	**1,097,880,498**
371 days and over	289,209,574	385,929,534	675,139,108	271,835,351	327,901,415	**599,736,766**
Accrued interest on deposits	3,706,292	4,211,828	7,918,120	4,157,928	3,753,085	**7,911,013**
Total deposits	**1,018,154,453**	**1,539,966,524**	**2,558,120,977**	**955,062,643**	**1,382,224,761**	**2,337,287,404**
Other customer accounts	**45,031,741**	**35,421,711**	**80,453,452**	**31,370,613**	**26,658,180**	**58,028,793**
Total customer deposits	**1,614,863,634**	**2,367,612,763**	**3,982,476,397**	**1,384,198,324**	**2,025,198,755**	**3,409,397,079**

Other customer accounts are composed as follows:

	31 December 2020			31 December 2019		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Guarantees for letters of credit	-	6,949	**6,949**	1,385	12,334	**13,719**
Escrow accounts	23,691,205	20,607,856	**44,299,061**	19,487,465	16,820,498	**36,307,963**
Payment orders to be executed	1,031,965	814,710	**1,846,675**	631,554	670,394	**1,301,948**
Other	20,308,571	13,992,196	**34,300,767**	11,250,209	9,154,954	**20,405,163**
	45,031,741	**35,421,711**	**80,453,452**	**31,370,613**	**26,658,180**	**58,028,793**

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

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the Bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank. Other represents deposits that are pending to be allocated into the relevant deposit category.

18. Due to banks and financial institutions

Due to banks as at 31 December 2020 and 31 December 2019 consisted as follows:

	31 December 2020	31 December 2019
Treasury bills sold under Repo agreements with Central Bank	200,567,011	255,495,852
Securities sold under Repo agreement	43,443,234	21,038,087
Deposits from banks	48,894,257	27,419,691
Current accounts of non-resident banks	458,097	572,044
Current accounts of resident banks	111,228	7,980,074
Borrowing from financial institutions	22,383,700	24,976,266
	315,857,527	**337,482,014**

Treasury bills and Albanian Government Bonds and Securities with a total value of USD 279,810,581 (31 December 2019: USD 291,932,990) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 31 December 2020 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents borrowings of EUR 18,227,778 outstanding as at 31 December 2020 (31 December 2019: EUR 22,265,000), which are disbursed from EFSE (European Fund for Southeast Europe) and GGF (Green for Growth Fund Southeast) to BKT Kosovo, during December 2019, bearing an interest rate between 2.25% - 2.48%.

19. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2020 of USD 2,007,320 (31 December 2019: USD 2,372,307) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

20. Deferred tax assets (liabilities)

Deferred income taxes are calculated using a tax rate of 15% for Albania and 10% for Kosovo. The movement on the deferred income tax account is as follows:

	31 December 2020	31 December 2019
Asset (liability) at 1 January	2,081,927	(411,719)
Income for the period	117,601	2,463,105
Exchange differences	169,935	30,541
Asset at the end of the year	**2,369,463**	**2,081,927**

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

	31 December 2020	31 December 2019
Deferred income on fees on loans	662,634	611,047
Decelerated depreciation	1,210,996	994,817
Provision of other debtors	575,834	534,490
Allowance for loan impairment	385,040	351,820
Fair value reserve for AFS securities	(463,243)	(385,032)
Interest expenses on deposits	18,193	(22,484)
Net effect of IFRS 16	(19,991)	(2,731)
	2,369,463	**2,081,927**

21. Accruals and other liabilities

	31 December 2020	31 December 2019
Dividend payable	40,000,000	-
Payments in transit	9,145,601	6,742,763
Due to tax authorities	2,679,284	1,677,726
Bonus payable	2,668,347	1,855,777
Creditors	1,847,096	1,896,978
Accrued expenses	1,447,433	1,111,116
Liability for retiring employees (note 3(s).ii.)	913,553	929,220
Payables to constructors for home loans	556,052	540,720
Social insurance	262,461	236,413
Cash guarantees from suppliers	139,622	150,126
Foreign exchange contracts revaluation loss	-	4,635,490
	59,659,449	**19,776,329**

Dividend payable represents the dividend payment suspended based on the respective decisions of the Supervisory Council of Bank of Albania until 2020 end and paid in January 2021 following the respective Bank of Albania decision (See note 1).

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

Bonus payable represents the accrued yearly performance bonus for the Bank's staff and management, which is expected to be paid within the first quarter of 2021.

Liability for retiring employees represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement. The investment in this fund has been stopped by the Bank on 30 September 2010 (See note 3(s).ii.).

22. Subordinated debt

Subordinated debt of USD 30,741,975 (31 December 2019: 28,085,585) represents the equivalent amount of a ten-year facility of EUR 25 million, bearing an interest rate of 5.15% and payable on its maturity date with bullet payment. Subordinated debt was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 22 December 2015 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments.

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

23. Shareholder’s equity and reserves

Share Capital

At 31 December 2020 the authorised share capital comprised 24,291,498 ordinary shares (31 December 2019: 24,291,498). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank’s residual assets.

Reserves

Translation reserve

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

Fair value reserve and impairment of FVOCI

a) Fair value reserve

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

b) Impairment of FVOCI

Following the requirements of the standard “*IFRS 9-Financial Instruments*”, impairment of FVOCI represents the impairment provision for debt securities measured at FVOCI recognised in other comprehensive income for the financial year 2020.

The impairment of FVOCI at 6,170,410 USD for the financial year 2020 is composed of available-for-sale securities impairment provision at 5,916,152 USD and treasury bills available-for-sale impairment provision at 254,258 USD.

Meanwhile, for the financial year 2019 the impairment provision for debt securities measured at FVOCI at 2,127,531 USD has reduced the carrying amount of debt securities.

Retained earnings

Retained earnings as at 31 December 2020, includes the cumulative non distributed earnings. As described in Note 1, the Bank created legal reserves of Lek 1,658,531 thousand (equivalent of USD 14,592,614) and decided to distribute Lek 4,690,400 thousand (equivalent of USD 40,000,000) as dividends, using of the statutory net profit for the year ended December 31, 2019. The remaining part of statutory profit for the year 2019 was kept as retained earnings. Retained earnings are distributable.

24. Interest income

Interest income is composed as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Placements with banks and balances with Central Bank	8,112,358	12,392,274
Investment securities	74,283,141	62,680,794
Loans to customers	72,217,145	73,479,434
	154,612,644	**148,552,502**

Interest income from investment securities can be further detailed as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Treasury bills	3,313,635	2,667,587
Trading and available-for-sale financial assets	64,207,013	51,875,297
Held-to-maturity investments	6,762,493	8,137,910
	74,283,141	**62,680,794**

25. Interest expense

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

	Year ended 31 December 2020	Year ended 31 December 2019
Due to banks and financial institutions	4,872,855	9,431,350
Customer deposits	15,768,294	17,705,623
Lease liability	310,497	325,650
	20,951,646	**27,462,623**

26. Fees and commissions, net

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

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income		
Payment services to clients	6,499,054	6,640,247
Electronic banking transactions	5,697,793	5,793,060
Customer accounts' maintenance	4,150,875	3,125,353
Inter-bank transactions	2,704,723	852,029
Lending activity	1,182,759	988,716
Cash transactions with clients	835,878	968,642
Other fees and commissions	380,597	439,771
	21,451,679	*18,807,818*
Fee and commission expense		
Inter-bank transactions	(350,962)	(436,777)
Payment services to clients	(153,788)	(174,497)
Customer accounts' maintenance	(59,398)	(51,335)
Transactions with clients	(1,593)	(6,344)
Other fees and commissions	(1,576)	(2,616)
	(567,317)	*(671,569)*
Fees and commissions, net	**20,884,362**	**18,136,249**

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

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation gain on the share capital revaluation for the year ended 31 December 2020 is USD 21,572,785 (year ended 31 December 2019 loss: USD 2,239,417).

28. Other (expense) / income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2020	**Year ended 31 December 2019**
Other income		
Gain from market value of held-for-trading securities	6,889,290	-
Gain on recovery of written off loans to customers	1,307,987	547,168
Reversal of provisions on assets acquired through legal process	359,938	372,088
Dividend income from equity investments	346,381	1,275,000
Gain on sale of assets acquired through legal process	284,543	161,886
Income from operating lease	78,006	74,540
Gain on sale of property and equipment	38,765	66,108
Reversal of staff pension fund	7,522	9,880
Reversal of other debtors	-	47,895
Sundry	481,152	9,729
	9,793,584	*2,564,294*
Other expense		
Write off of loans to customers, net	(389,523)	(4,999,062)
Loss from other debtors	(249,087)	-
Provisions on assets acquired through legal process	(97,271)	(5,091,521)
Loss on sale or write off of fixed assets and repossessed assets	(8,295)	(22,213)
Provision of other debtors	-	(249,258)
Sundry	(95,272)	(251,175)
	(839,448)	*(10,613,229)*
Other (expense) / income, net	**8,954,136**	**(8,048,935)**

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

	Year ended 31 December 2020	**Year ended 31 December 2019**
Write off of loans to customers, gross	(897,063)	(15,694,968)
Provision reversal of written off loans	507,540	10,695,906
Write off of loans to customers, net	**(389,523)**	**(4,999,062)**

29. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2020	**Year ended 31 December 2019**
Salaries	15,855,136	15,098,017
Performance bonus	2,490,891	2,100,040
Social insurance	1,632,486	1,578,756
Training	176,602	230,216
Life insurance	142,051	143,812
Other	2,049,924	1,658,390
	22,347,090	**20,809,231**

30. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Deposit insurance expense	9,935,065	9,082,202
Credit/debit cards expenses	7,622,290	7,271,698
Repairs and maintenance	2,940,183	2,476,173
Telephone, electricity and IT expenses	2,874,582	2,641,592
Other external services (including external audit fees)	2,647,344	2,557,435
Extraordinary fund expenses	1,778,158	1,655,883
Security and insurance expenses	1,510,089	1,476,492
Marketing expenses	1,129,672	1,267,403
Transportation and business related travel	425,295	611,447
Office stationery and supplies	285,629	337,293
Taxes other than tax on profits	203,913	226,721
Representation expenses	181,936	316,248
Lease payments	175,693	149,978
Sundry	1,452,427	1,427,299
	33,162,276	**31,497,864**

The law No. 25/2018 On Accounting and Financial Reporting requires the disclosure of the Audit fee related to the Statutory Audit. The expense for statutory audit included in the Other external services (including external audit fees) amounts to USD 71,567.

31. Impairment of financial assets, other than loans to customers

Movements in the allowance for impairment financial assets other than loan:

	31 December 2020	31 December 2019
At 1 January	**3,218,847**	**3,476,782**
Impairment charge/(reversal) for the period	**5,218,515**	**(229,141)**
- on investment securities	4,139,602	22,568
- on placements	38,817	6,207
- on loans to banks	834,905	(68,073)
- on other assets	205,191	(189,843)
Translation difference	643,834	(28,794)
At the end of the period	**9,081,196**	**3,218,847**

32. Income tax

Income tax is comprised of:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax	13,284,844	11,907,611
Deferred tax (income)/expense (note 20)	(117,601)	(2,463,105)
	13,167,243	**9,444,506**

32. Income tax (continued)

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

	31 December 2020	31 December 2019
Profit before taxes	**88,474,283**	**65,905,307**
Computed tax using statutory tax rate of 15 %	11,211,899	8,763,188
Effect of tax rates in foreign jurisdictions at 10%	1,368,900	638,881
Non tax deductible expenses	171,535	192,080
Foreign exchange difference	414,909	(149,643)
Income tax	**13,167,243**	**9,444,506**
Effective tax rate	**14.88%**	**14.33%**

33. Related party transactions

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

Identity of related parties
The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 December 2020. The ultimate controlling party is Mr. Ahmet Calik.

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

Balances and transactions with related parties

	31 December 2020	31 December 2019
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	90,492	110,864
Loans to customers:		
Albtelecom	40,557,456	37,360,984
Albania Leasing	23,720	107,715
Other assets:		
Receivables from Albtelecom Sh.a	5,716	10,170
Total assets	**40,677,384**	**37,589,733**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	10,426,923	-
Customer deposits:		
Albtelecom Sh.a.	379,803	532,664
Albania Leasing	203,579	285,740
Sara-AT	-	54
KEDS / KESCO	19,907,278	13,727,846
Other Liabilities:		
Dividend Payable to Calik Finansal Hizmetler A.S.	40,000,000	-
Total liabilities	**70,917,583**	**14,546,304**

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	2020	2019
Statement of comprehensive income		
Interest income from:		
KEDS / KESCO	-	7,201
Albtelecom Sh.a.	1,913,326	809,767
Albania Leasing	3,017	7,598
Aktifbank	3,401	2,241,316
Interest expenses for:		
Albtelecom Sh.a. and Eagle Mobile Sh.a.	-	(203)
Aktifbank	(340,151)	(454,933)
Fees and commissions:		
Letters of guarantee:		
Albtelecom Sh.a.	1,285	1,699
Calik Enerji Sanayi Ve. Ticaret A.S	-	10,192
Account maintenance and lending fees from Albtelecom Sh.a. and Eagle Mobile Sh.a.	100,242	78,990
Account maintenance and lending fees from Albania Leasing	3,936	874
Account maintenance and lending fees from KEDS / KESCO	54,557	23,891
Other income:		
Operating lease income from Albtelecom Sh.a.	65,140	62,970
Operating expenses:		
Albtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(1,707,306)	(1,867,948)
Net	**97,447**	**921,414**

Balances and transactions with directors and executive officers

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

	Year ended 31 December 2020	**Year ended 31 December 2019**
Directors	1,177,618	552,420
Executive officers	3,225,550	3,388,367
	4,403,168	**3,940,787**

As at 31 December 2020, the total deposits of directors held with the Bank were USD 3,112,460 (31 December 2019: USD 2,142,992), while the outstanding loans granted to directors were USD 412,769 (31 December 2019: USD 194,078).

34. Contingencies and commitments

Guarantees and letters of credit

	31 December 2020	31 December 2019
Guarantees in favour of customers	68,444,632	47,073,400
Guarantees received from credit institutions	6,486,209	5,312,752
Letters of credit issued to customers	250,434	2,386,606

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

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

Other

	31 December 2020	31 December 2019
Undrawn credit commitments	135,729,619	137,836,220
Outstanding cheques of non-resident banks	360,314	377,076
Spot foreign currency contract	130,262,997	117,025,707
Collaterals for loan portfolio	3,604,049,495	3,191,295,537
Securities pledged as collateral (note 18)	279,810,581	291,932,990

Legal

In the normal course of business, the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2020.

35. Subsequent events

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