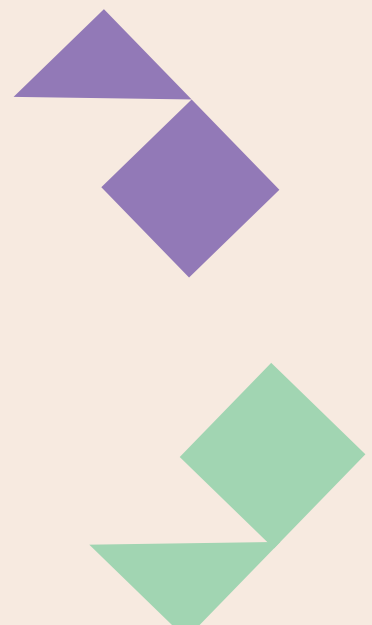
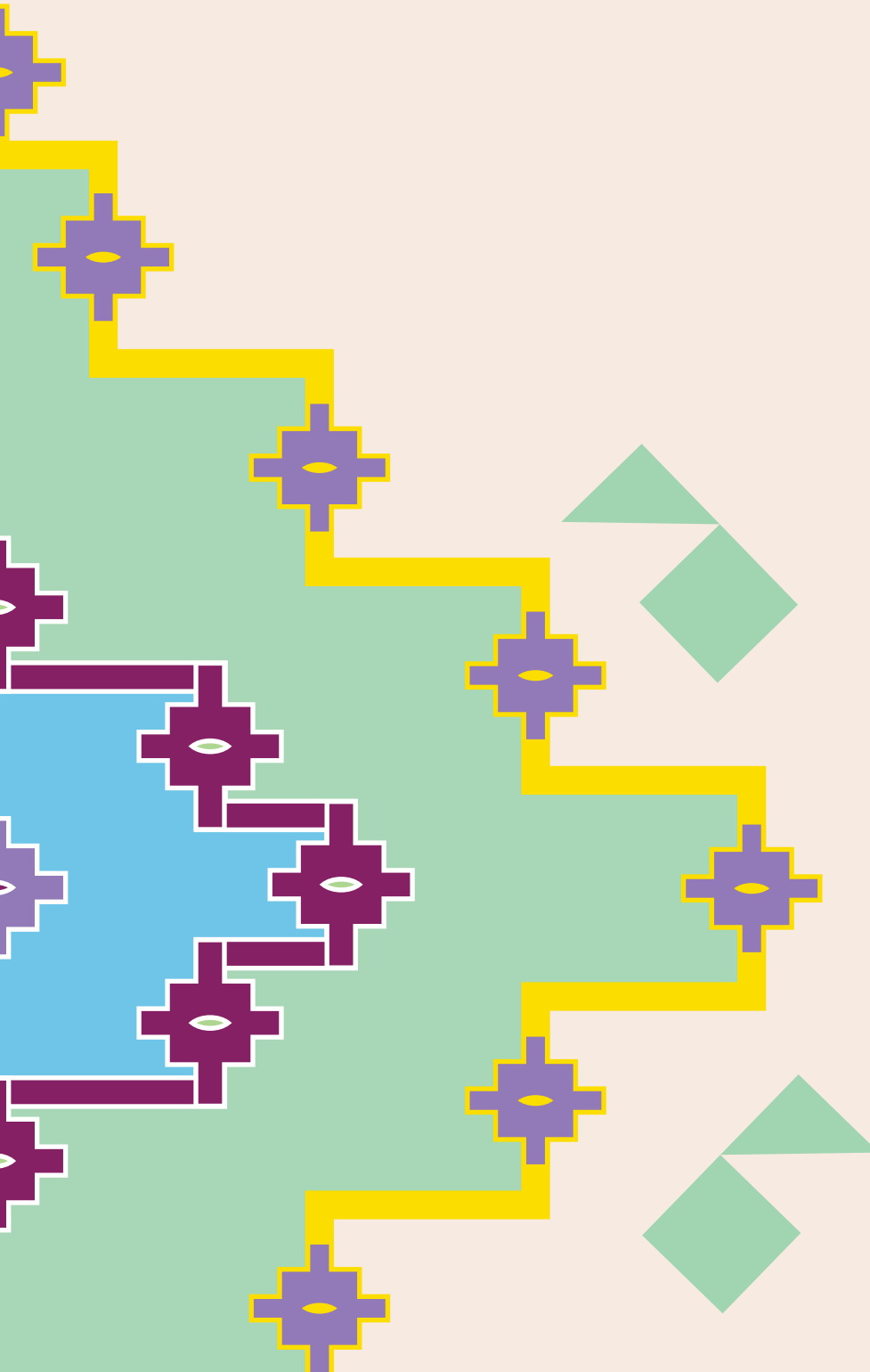




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ANNUAL
REPORT



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MESSAGE FROM CEO

2020 was challenging in many aspects both for our country, and for the entire world. The pandemic situation was beyond expectations, forcing us to take continuous and immediate initiatives to anticipate any unexpected events. Thanks to the very good organization and coordination with all the bank's units and senior management, we managed to maintain a careful balance throughout the branch network and the Head Office. Customers were provided at all times with the necessary services and we were always there, present, to provide maximum security for staff and customers for normal business, by giving continuous support and optimism for overcoming the situation.

Despite the tremendous difficulties, Credins Bank managed to maintain a satisfactory performance, successfully achieving some of its strategic objectives and maintaining a sound position of liquidity, non-performing loans, revenue growth and further consolidation of customer relations. Thanks to the rapid and successful measures, preliminary performance was positive compared to 2019.

Credins Bank maintained throughout 2020 the first place in the market for total net loan portfolio with an increase of + 4% in 2020 compared to 2019. During this year, lending focused mainly on strategic sectors such as health and supporting small and medium-sized businesses to recover their activity, overcome the difficulties created and to restart with optimism. Of significant contribution was the restructuring of some of the loan portfolio for



businesses that were affected by the pandemic, as well as the support given through the sovereign guarantee schemes. Despite the challenges of the interbank market, a prudent approach to liquidity management was maintained ensuring good performance in terms of financial market fluctuations in the onset of the pandemic.

The pandemic addressed customers towards digital channels by raising their awareness, which was reflected in the increasing number of users of Credins Online application (+ 62%), accompanied also by a growing number and volume of transactions, and providing them incentives with facilitating commissions. Customers were provided with uninterrupted access and

support to perform operations directly in Credins Online which was enriched with new functionalities and further simplified elements to use. In line with the digital strategy, we were the first to open the digital branch, "Smart Branch", which welcomed customers to be informed and advised to perform their own applications and banking services directly and independently from digital channels.

The pandemic had a positive impact on several other bank indicators such as: significant increase in the use of bank cards (+ 59%), increased demand for e-commerce service (+ 75%) and increased bank deposits (+8 %).

Another success reached in a difficult year by our bank was the finalization of the licensing project by the Bank of Albania for three new activities: derivatives trading, securities underwriting and advising on certain activities. It should also be highlighted that Credins Bank was also one of the main supporters of the Albanian government in the securities auction to secure the necessary funds for dealing with the pandemic.

In addition to achievements, the challenges remain open for 2021, such as keeping under control the loan portfolio which should be carefully monitored in the coming months, in line with further developments of the pandemic situation and potential consequences on the local economic situation and throughout 2021. Besides the measures taken by the government and the central bank, the challenges are: economic recovery, normal operation of many sectors of the economy adversely affected by the pandemic, the return of confidence in individuals to increase consumption and investment, etc. Our current banking infrastructure is better organized to cope with the pandemic, but however, the return to the normal situation may require additional measures which need to be further assessed.

The pandemic gave a significant boost to the operational way of working and thinking, and many processes which in normal conditions would have taken years to be implemented, have already become an immediate reality.

Credins Bank adopted a flexible policy of working remotely by providing the staff with the necessary access and infrastructure. We adapted domestic policies while observing our principles, and we adopted a collaborative and communicative work culture through digital platforms. Many processes were automated and optimized to help customers as effectively as possible. A fairly good online application infrastructure was established for several services and products, adapting internal coordination for quick approvals. Digital campaigns were set up to promote banking products on digital channels and reach the customer wherever he/she is, both providing information in a simple and convenient way, and facilitating commissions and direct online application from the office or home. We set up relevant customer support units and also allocated specialized

staff in our branches to educate and advise customers on the use of digital channels.

Credins Bank's mid-term strategy over the next 3 years aims to further strengthen its position as one of the main and sustainable financial institutions in the country, relying on several key pillars such as: introduction of innovative and personalized services towards a digital journey adapting to customer behavior, investment in human resources, increasing productivity of the bank's 58 branches, optimizing processes through the implementation of new systems, etc. Technological transformation will continue further on with impressive projects to provide a unique digital experience for each client in many alternative channels, requiring at the same time regulatory, technical and administrative enhancements to support technological developments such as the digital signature.

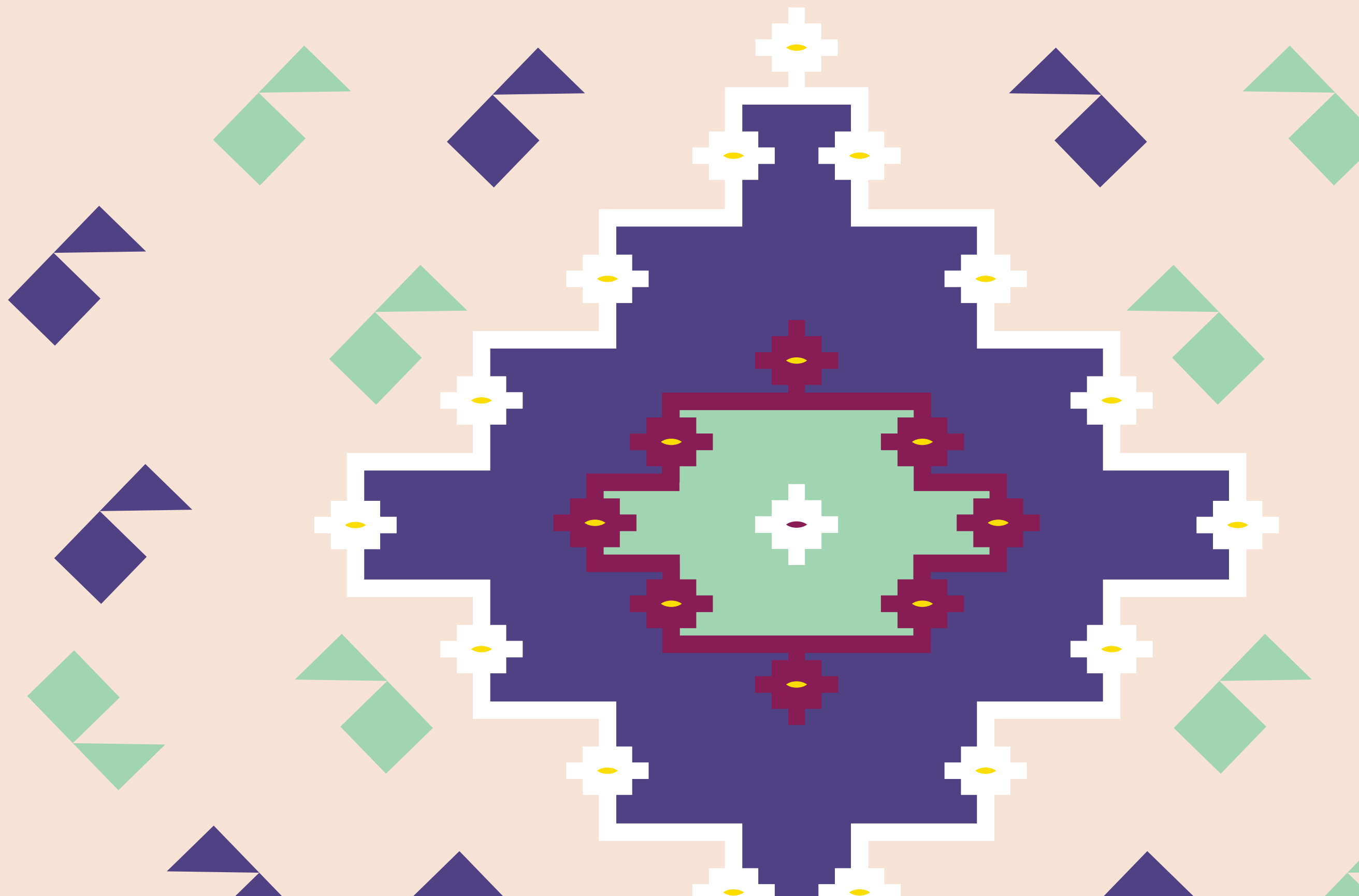
Credins Bank will continue to be one of the leading banking institutions in the country, supporting the overall economic development of the country, reducing informality and reducing cash in the economy through attractive products and offers, and will continue to contribute to constant investment in staff and further employment of young people by supporting talent development.

After 18 successful years in the Albanian market, Credins Bank has just opened its doors in Kosovo, and has already been launched with two branches. This important decision-making, even though in the most difficult conditions such as the pandemic situation, has not hindered our plans for further expansion throughout 2021 and to be present in Albanian areas close to each client. We shall apply in Kosovo the competitive advantages and expertise along with the excellent customer service, product portfolio, technological systems, staff recruitment and promotions, in order to offer the best in this market.

Credins Bank has been very active in identifying the needs of Albanian society and designing projects to help facilitate them. The focus of our bank will continue to be improving infrastructure in education, health, environment, innovation, etc., as an integral part of the strategy for a corporate social responsibility which will soon be finalized. We also will implement a very impressive project to engage the society on a wider scale to contribute more towards a better society.

MALTIN KORKUTI
CEO

A handwritten signature in black ink, appearing to be 'M. Korkuti', written over a light blue grid background.



BUSINESS DEVELOPMENT DIVISION

LARGE BUSINESS DEPARTMENT

The year 2020 brought about great and various challenges compared to previous years in terms of Large Business credit management as a result of the Covid-19 pandemic situation and its aftermaths. The lockdown of March 2020, led the Large Business Department to respond efficiently by conducting rapid timely analysis of the financial situation of customers and consequently rescheduling instalments in the amount of over 1 billion ALL. In parallel, the Large Business Department treated carefully and on a slow pace the new funding, with the exception of the health sector, which we deemed necessary to support in order to mitigate the pandemic effects, in the context of social responsibility.

Challenges continued in the second half of 2020 as well. The payment schedules of Large Business customers were also redefined thanks to an intensive process which involved negotiations with clients, analyzes of their financial situation under the Covid-19 impact. All the potential scenarios for ongoing customer's business and its needs were also taken under consideration in order to reschedule loan payment schedules with the agreement of both parties, bank and client. The Large Business Department was committed with dedication and managed to finalize all customers' application regarding loan payment rescheduling, thus meeting the needs and requirements of our clients. Although the main focus has been on managing the pandemic situation, new applications of businesses have also been at our attention. Medium-sized businesses continue to be supported by the bank with new financing, based also on the good performance of this segment. The latter makes up no more than 3.73% of the total non-performing loan segment. On the other hand, in accordance with the Bank's strategy corporate have decreased both in value and weight. The share of corporate non-performing loans have also been reduced.

BRANCH SALE MANAGEMENT DEPARTMENT

2020 marked a difficult, complex and challenging year for the entire bank branch network. Branch staff was faced with emergency situations, reduced hours, and health challenges throughout the year. Despite the difficulties, however, the bank's branch network managed to serve customers with the responsibility, devotion and excellence that characterize the customer service in our bank.

In 2020, the bank's objectives for the branch network were achieved entirely both in terms of numbers and volumes, as well as the quality of products sold. In terms of figures, the branch network managed to achieve the objectives for the majority of the bank's products, an average of 105% realization, by easily exceeding the objectives set for the bank's retail business development.

The branch's productivity, measured as the number of products sold by the sales staff in the branch, increased slightly by 0.6% during 2020, accompanied by an increasing indicator in the number of products sold to clients, which exceeded for the first time level 2. The products sold to the bank's active customers, such as our payroll clients, amounts to 3 products per customer, a satisfactory figure showing that our customer needs have been meet with products completely designed and served by Credins Bank. The focus of the Branch Sales Force have continued to be deposits and loans, along with digital products such as Credins Online (internet banking) platform which is already meeting the majority of the customers' financial needs. Credins Online, the "virtual" bank application which is used to perform almost all the operations that can be carried out at the bank counters, had a great success both in sales and in use. Customers have also shown increased interest for using other communication channels with the bank, such as the product requests, which can already be performed through the bank's website.

The loan portfolio generated by the branch network continued to grow in the retail segment, especially in small business loans. The retail loan portfolio in 2020 increased by 3.7 billion ALL or 11.2% compared to 2019.

Commissions of bank transactions carried out in 2020 increased by about 3.7% compared to last year. All the bank regions had an increase, particularly in the second half of the year, when the decreasing number of operations and transactions during "pandemic closure" in March-May 2020, has been recovered. The revenues are generated by commissions applied to POS, Cards, foreign exchange transactions, etc.

2020 continued its path towards technological innovations and digital developments for the branch network, in terms of restructuring and modernization of a large number of branches, innovative and flexible service designed through the mobile bank "Mobile Branch" and also the opening for the first time of the "Smart Branch". In addition to the normal activity that clients are accustomed to perform at our bank, they can interact with all digital forms offered

by the bank, can receive personalized consulting in comfortable and special facilities within the branch, can have a hot cup of coffee or tea while being informed about the latest bank updates through the branch screens. Thus, they can be served 360 degrees both physically and virtually.

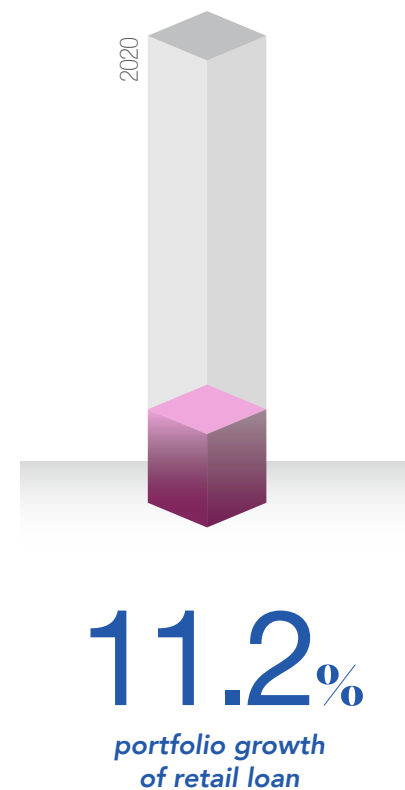
The launch of product packages for the very important segment of the bank, private and state payroll clients, was the novelty to our customers. For the first time in 2020, several product packages were designed, which grouped various bank products offered together. They were more financially convenient for the customer and had also an advantage over the price of these products sold separately. Now, the client saves time and reduces costs, because the bank offers them simultaneously several products and services!

During 2021, the strategic priorities for the branch network are focused on: maintaining the competitive advantage of a high quality service offered to clients, the ongoing process of automating manual operations in the Branches, a process that last year marked a significant improvement; providing digitalization to the other branches of the bank, so that the client can feel comfort in their banking services both in traditional branches and other alternative channels of the bank.

MARKETING DEPARTMENT

In addition to the difficulties associated with the pandemic, 2020 was quite successful for the Marketing Department in terms of launching campaigns for products and services, strengthening the bank's brand, increasing sales to existing customers, increasing the number of new customers through newly launched offers as well as through the digital strategy applied. All the creative campaigns designed and the communication channels used created a favorable climate for reaching strategic objectives for the business unit.

Throughout 2020, 4 successful campaigns were launched with an overall communication. Immediately upon the lockdown restrictions were removed, we launched the "Business Package" campaign dedicated to small and medium-sized businesses, making up the main part of local businesses. The design of the campaign was very impressive and the slogan very supportive: "Close to you every day". This slogan conveyed optimism and partnership, by converting our bank into "the sole point for all banking services needed by each business ". In parallel, a lending



campaign was organized to help businesses and individuals overcome the difficulties of the pandemic situation, meet their liquidity needs and give life to their business. The slogan of this campaign was enthralling: “Give life”. The accompanying message from Credins Bank was meaningful: “Credins Bank, your partner in every service”. The campaign was launched with a new TV spot realized in a specific area with small businesses, which kindly noted that our services had significantly facilitate everyone’s day-to-day work.

“Pay with Master Card” was another important campaign launched by the end of 2020. It was also in line with the awareness campaign initiated by the Association of Banks to make individuals aware of using cards on a larger scale, as a payment instrument that replaces cash payments. The new TV spot also highlighted other benefits of card payment. The “Student Package” designed with no commission was promoted to every student even though the situation was not very acceptable. Communication for these campaigns was comprehensive, being close to customers on every channel both traditional and digital. Also, during the second quarter of the year, our focus was to promote Credins Online application, by entirely changing every design and content. Due to total lockdown we were close to every customer on a daily basis through digital promotion. Application marketing was a great help for all people giving them the opportunity to perform many banking services quickly and conveniently from home. The download and use of the application was multiplied, not only by the excellent support of the bank staff, promotional campaigns, but also by the pandemic situation which made the online application to be used on a larger scale. Partial campaigns mainly in digital communication were also addressed to loyalty schemes such as: use of cards or Credins Online application, deposit offer, credit card offer, etc.

One of the main priorities of each campaign was the digital strategy which was reflected by using many channels such as: social networks, YouTube, web, portals, Google AdWords etc. Sales from digital channels, as an innovation recently launched by the marketing department, increased significantly over the months, generating a fairly good conversion rate. The construction of an internal operational infrastructure enabling rapid treatment of any requests submitted by client through these channels, was a great support. The bank enhanced the official website so that each application addressed there could lead to the traffic increase, which exceeded the figure of over 100k followers per month. New channels were used for specific campaigns, such as

marketing via email or sms, addressed to the bank’s existing customers to increase sales of existing products based on their personalized needs. As a result of website parameters, the organic growth of web clients has been at satisfactory levels over the months.

Advertising on our social networks significantly increased the number of followers who exceeded over 130k (+ 70% increase compared to 2019). Our bank was ranked one of the leading banks in terms of number of followers, views, clicks and applications. Due to the pandemic and social distancing, the marketing plan was revised to suit the situation, so the main focus was our active presence on digital channels. Several campaigns were launched in Google AdWords which helped both digital applications and launched offers seen, which were in high numbers (over 12 Million views).

The Marketing Department was also engaged in several important projects, which were successfully finalized. The “Smart” branch, launched with a new design concept after several months of work, had a very good promotion in many media, special TV chronicles, various articles, etc. “Credins Events” application was launched in December ‘20, as a new and simple way of communicating internally with the bank’s staff and in line with technological trends. Another focus was on finalizing the project for opening our bank in Kosovo by building a complete set of all marketing processes such as creating a website, social networks, brand marketing materials and products to make customers feel the same way as in Credins, Albania.

Our special focus was communication with the media and every other channel, as we had to maintain a daily and very close communication with all the bank’s customers as well as to convey optimism throughout the year. All messages addressed to clients were based on a transparent, information, support policy, etc. and to be near them as much as possible in the conditions of total lockdown or during reopening when physical contacts were limited.

2021 will be more dynamic in terms of challenges. New product campaigns will be launched targeting specific groups of customers with specific packages or offers, the promotion of Credins Online with all functionalities and further innovative developments in line with technological developments. The specific focus of digital strategy will be increasing attention towards regular campaigns for online application of our products on portals, web and Google

PRODUCT AND INSTITUTIONAL MANAGEMENT DEPARTMENT

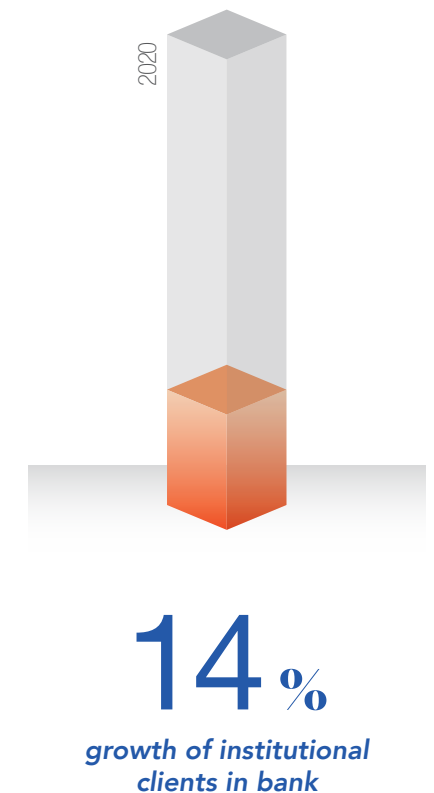
The Product Management Sector managed to successfully close another even more challenging year due to the global pandemic. The main objective, throughout the ‘20s, has been designing products or services with preferential terms to be the partner bank of every individual and business to cope with the pandemic situation and continue their plans. The Products Department focused on creating products/services also dedicated to the pandemic situation. In cooperation with the Ministry of Finances, various Sovereign schemes were designed to support businesses. *Sovereign loan product 2* was also launched, an Albanian state guarantee scheme granted to businesses to continue investing and face the difficult situation of lack of liquidity.

Upon removal of total lockdown, the “Together” loan was designed to help small businesses and individuals to reopen and continue their investments with optimism. We also launched a preferential package of products in particular for the health personnel as a gratitude for their great contribution in this sensitive period. Following the successful cooperation with funds such as RCGF and Cosme, the guarantee conditions provided for customer lending were revised in order to be further facilitated. To encourage customers to use digital channels, especially Credins Online app, we applied preferential commissions for in-app transactions, in line with Central bank directives. This led to an increasing volume and number of transactions.

Credins Bank strongly supported the Albanian government in transferring the “War Wages”. The services were provided free of charge to more than 39,000 new and existing bank customers. The use of bank cards was promoted during the pandemic period accompanied by an increasing limit of contactless cards, by specific offers and preferential commissions. One of the novelties of the bank was also delivery of a certain package for payroll clients of Credins Bank, A novelty for the bank, was the creation for the first time of the packages for the payers of Credins bank, combining certain products and services with very attractive commissions.

Regardless of the difficult pandemic situation, the Institutional Management Sector managed successfully all communications and requests submitted by the State Institutions, showing a reliable partnership. Beyond the lack of physical contacts, we managed to maintain a stable communication to further expand the portfolio of Institutional clients, both in terms of fund management and payroll.

During the ‘20s, in collaboration with other bank structures, we managed to optimize the database in our systems, accompanied by an internal structural reorganization to better adapt to relations with institutional clients nationwide. Thanks to our ongoing efforts, institutional clients in our bank increased by + 14%. Accounts and deposits number (+ 39%) and volume (+ 31%) of state institutions also increased compared to ‘19. Profitability increased by + 22%, non-lending products by + 17.2%, mainly in e-banking, prepaid cards and pensions. The loan portfolio of institutional clients increased by + 11.7% in volume and + 9% in number, followed by increases commissions at the level of + 10%.



The focus of future projects focus is to further strengthen relations with current clients, design elite packages, as well as further expand the current base with new clients, as we believe that we have all the adequate potential to provide this category with a portfolio of personalized products and services.

ALTERNATIVE BUSINESS DEPARTMENT

The focus of Alternative Business Department throughout 2020 has been the development and further strengthening of the insurance intermediation activity as well as establishment of the necessary infrastructure to launch the investment funds depository activity.

The incomes generated by the intermediation in insurance, among the highest potential activities to develop in the coming years, were in the amount of approximately ALL 16.6 million, in the form of intermediation commissions. Regardless of the difficult year 2020, operational revenues increased by about 18% compared to 2019. Increasing revenues were mainly due to the reorganization of the intermediary's duties in relation to insurance companies and due to higher fees imposed for this service. Since December 2020, all borrowers' life insurance policies are generated by the staff of ABD and they are printed directly at the bank's branches. Therefore, the customers are provided with the insurance policy within a short period of time.

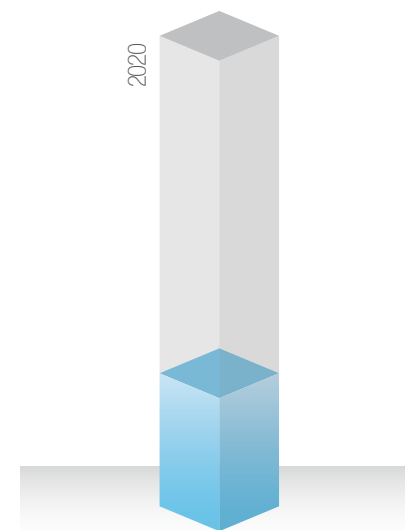
Another challenge of the previous year were also the aftermath of the November 2019 earthquake. Throughout 2020, ABD managed to address compensation claims of customers affected by the earthquake of late 2019 and to follow their compensation process. 93% of claims for compensation were finalized in favor of affected clients and only 7% of them (or 9 cases) are still under evaluation/decision making.

During 2020, ABD provided all the conditions for the successful initiation of the activity of the Depository for Collective Investment Enterprises. Thus, the special depository system was provided and tested, the depository unit staff was trained, the depository service contract was entered into with the company Abi Invest Sh.a, the agreements for the settlement agent service and the securities account management of ABI EIA fund with the company Abi Invest Sh.a were also finalized. Moreover, we successfully followed up communication with the Bank of Albania, which granted its approval for the opening of the securities account in AFISaR system. The activity of the Depository was successfully launched on February 01, 2021.

Another achievement of ABD was the licensing by the Bank of Albania of the securities underwriting activity, which we hope will be launched in 2021, after its approval by the Financial Supervisory Authority.

2021 is an important year for ABD given that business results are expected to increase significantly based on the following objectives:

- change of the collateral insurance scheme by applying immediate insurance for all loan terms;
- renegotiation of intermediation fees in favor of the Bank;
- initiation of intermediation for other insurance products (except the products provided to borrowers);
- charge of the depository service.



18%
growth of insurance
intermediation activity

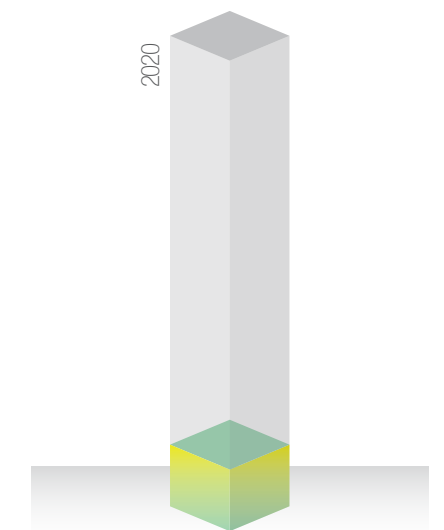
LEASING SALES AND SUPPORT DEPARTMENT

Economic development during 2020 had a significant impact on the leasing product. The automotive sector makes up 80% of financing volume. The sales of this sector decreased by 30% compared to 2019. This sector has been focused mainly in managing the situation created by the pandemic, keeping within the parameters the main business indicators. The ongoing service and care to our customers, who showed problems during this year, has been of special importance to us. However, we managed to conclude a balanced year. The main areas greatly affected were tourism through operational leasing and the taxi sector. Credins Leasing continues to be the top choice for both businesses and individuals seeking financing for machinery, equipment, vehicles and cars. Credins leasing continues to maintain a strong and growing position in the market. During 2020, the projected surplus growth was 8% compared to 2019 and it was realized at the level of 98%. 6.3 million euros were disbursed.

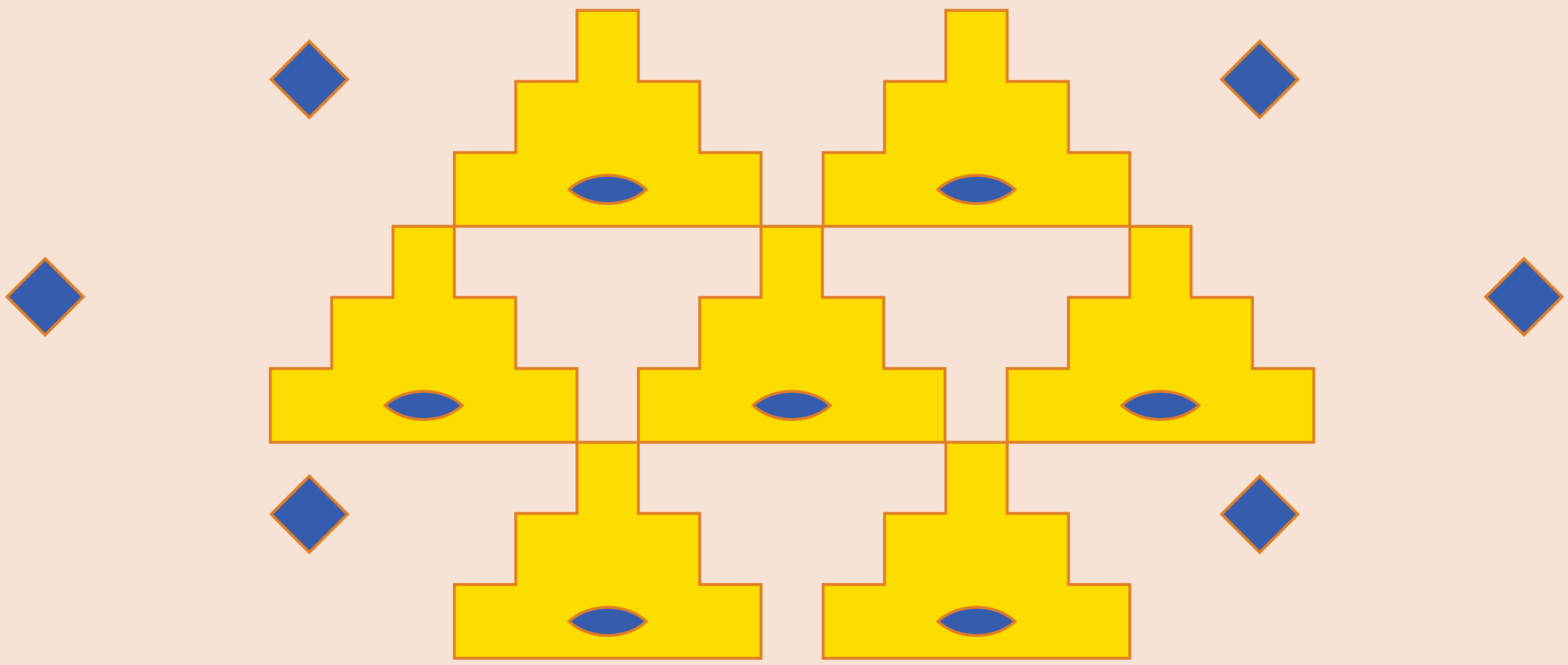
Disbursements increased significantly by 97% compared to planning. The loan portfolio also maintained a good quality, with a low level of non-performing loans, 3%.

Credins leasing continues to be ranked in the second place in the market, at the level of 14%, which was accompanied by an increase of 5% in 2020 compared to 2019. Interest income was realized by 93% compared to 2019 and provisional expenses were maintained at the same level as one year ago. During 2020, the financing of branches in this product was higher. Therefore, this is the right moment to involve the branch network.

The objectives and forecasts for 2021 continue to be aggressive and they could be fulfilled by engaging the entire branch network in terms of new sales. Relationships with the concessionaires will be further strengthened by adapting them to the market through custom-tailored attractive financing schemes. Efforts will be made to continuously improve existing products in terms of processing time or duration as well as further increase funding for equipment and machinery by various industries. Maintaining non-performing loans at acceptable levels will be another challenge throughout 2021.



5%
growth
Credins leasing



RISK DIVISION

The Risk Management Division is responsible for the identification, measurement, monitoring, and prevention and reporting of the activity related to the management of credit risk, market risk, liquidity risk, and operational risk. During 2020, all Risk structures together with Risk Committee, Audit Committee, ALCO and the Board of Directors, have ensured a prudent management, in accordance with the regulatory framework including management of the pandemic situation and its related risks. The Bank has a prudent policy in place, which is in line with the regulatory and strategic needs, as regards the assessment and control of several key risks, such as credit risk, credit concentration, operational, liquidity and market risks, etc. This policy is reviewed on a periodic basis in accordance with the Bank's strategy.

2020 was featured by significant challenges in various aspects for the banking system. The pandemic posed a challenge to risk management in terms of lending, regulatory amendments, liquidity management, operations, investment and human resources. Credins Bank, as one of the market developers for the establishment and progress of the secondary market of government securities by issuing and quoting reference securities prices on a daily basis, has significantly contributed to increasing transactions and efficiency of this major project. This Division has been focused on identifying and monitoring low-risk investments, accompanied with risk protection measures through derivatives, an innovation in the domestic market and a means of diversifying investments. Attention has also been paid to diversify exposures to the main investment counterparties in debt securities, especially according to the countries that make up total investment portfolio. This has also been accompanied by diversifying this portfolio for risk indicators as per the financial duration and expected return.

The Bank has observed all the objectives and limits for market risks, especially as regards the liquidity risk, by timely meeting the bank's needs for liquidity in any currency. Despite all the developments and challenges faced in the interbank and securities markets throughout the year, the Risk Division, in cooperation with the Treasury Department, has applied a prudent approach to liquidity management, maintaining a good performance in a challenging environment in terms of considerable fluctuations of financial markets in the beginning of the pandemic.

The Bank, in full compliance with the regulations and international standards, has adopted "Basel 3" most recent revisions in terms of liquidity and interest rate risk measurement. Actions have been taken to automate the process for calculating the indicator according to the regulatory and internal requirements.

The focus of risk management during the year has been in assessing, measuring and diversifying the capital requirement based on specific classes of asset and their exposure to risk. At the same time, the bank has conducted an internal capital adequacy assessment through a detailed process, including a number of specific risks not set out in the regulatory framework for capital adequacy ratio, such as credit risk concentration, country risk, residual market risk, owned properties risk, reputation and strategic risk, accompanied with stress-test scenarios for each of the major risks. Therefore, this will enable the Bank to widely estimate the risk exposure not only for available assets, but for all its daily activities and operations by assessing the additional capital requirement.

The bank has significantly focused on the good management of collateral assessments to cover the highest possible risk exposures and to include a wider range of collateral types, such as new financial investments and insurance products. In addition to improving the quality of collaterals pledged as guarantees for risky exposures, the Bank is also committed to enhance exposure coverage ratios through instruments for protecting the loans granted.

The Bank has been focused on improving and increasing the investment efficiency in accordance with the objectives for fund volumes, provisions expenses throughout the year and mid-term budgeting.

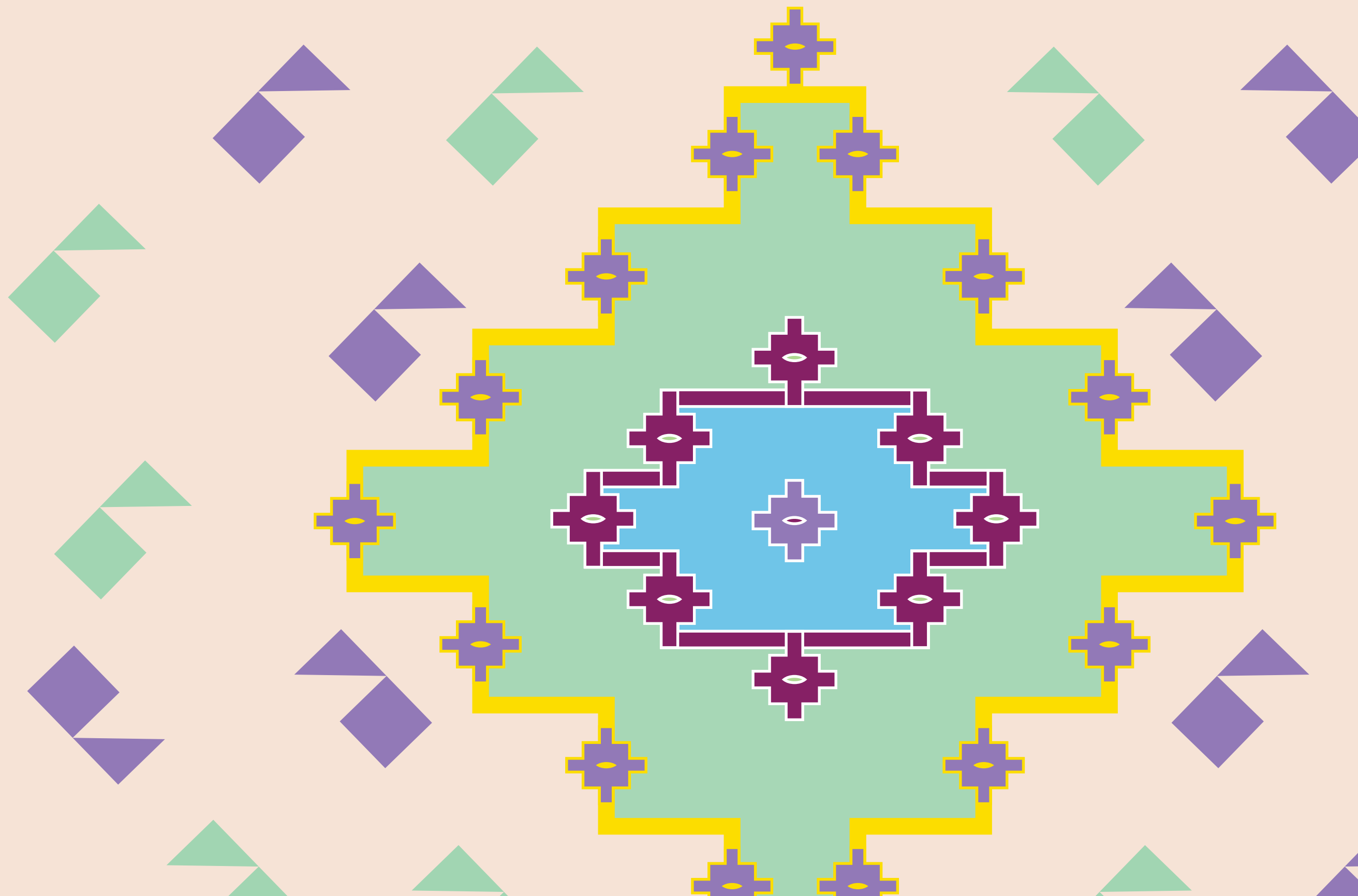
During 2020, the Bank revised the Business Continuity Plan, and its integral parts, focusing on both continuous improvement and introduction of new scenarios such as the pandemic case. The continuity plan comprises new solutions such as remote work, replacement of key persons, etc.

Lending throughout 2020 was based on the good acknowledgement of clients and on the specifics of their sectors of operation. It has been focused mainly on supporting the health sectors and various social services.

The Bank was faced with the loan installment moratorium for the portfolio affected by the COVID-19 pandemic. Based on the characteristics of the borrowers, the Bank has rescheduled installments and exposures, adapting to the situation and financial difficulties of the clients.

Credins has been one of the leading banks that financed clients under financial support schemes through sovereign guarantee packages.

Credins Bank has aimed to balance the funds absorption in different currencies and their investment by granting loans in these currencies. In the meantime, the bank considers mitigation of exposure to the indirect credit risk as a crucial element, as a result of the exchange rate. Also, it has been recommended that clients receive their loans in the same currency as their incomes, or otherwise convert the existing loans denominated in EUR to the local currency by informing and making aware the clients of the potential risks from foreign exchange fluctuations. Credins Bank is not so much exposed to this kind of risk as compared to the published data for credits and deposits of the entire local banking system.



OPERATIONAL DEPARTMENT

OPERATIONAL DEPARTMENT

The challenge of the Operational Department, in general, was to cope with the difficult and pandemic situation created in 2020, by successfully fulfilling the objectives set for 2020.

We, as a central structure supporting the correct and timely processing of all products and services of payments finalized within the department, continued to fulfill our role professionally, exceeding any expectations.

The key points of the Operational Department during the pandemic situation have been monitoring, adaptation and implementation of various processes of special importance, dictated by this situation. It is worth mentioning BoA decision to mitigate the commissions of e-banking transfers in ALL, review and implementation of the requirements of AIPS and AECH regulations, processing of war salaries, delivering pensions to the relevant addresses, by mail.

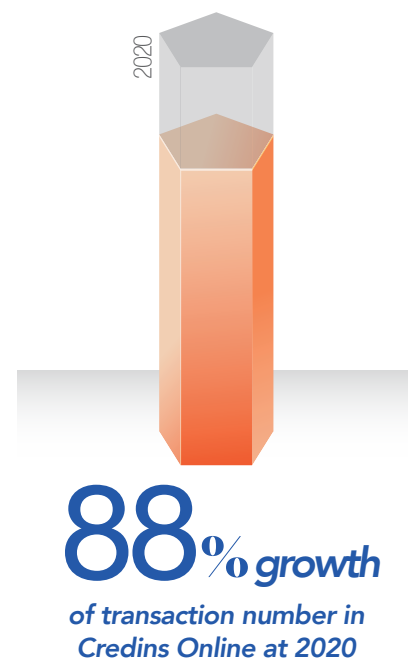
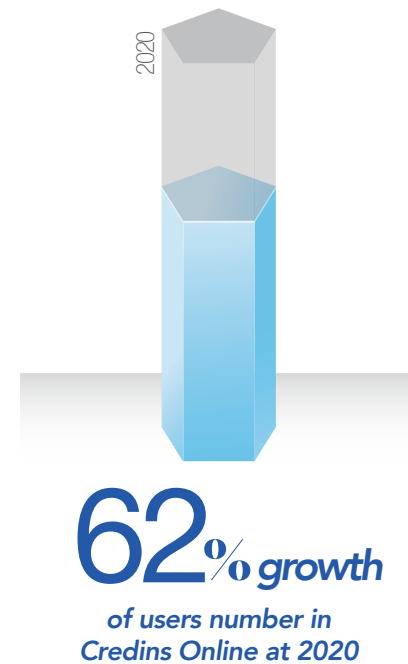
The Department has been very active and productive with its know-how in various products or services, improving automation of processes and procedures or agreements entered into with third parties. It is worth mentioning the agreement entered into with SSI regarding the transfer of pensions abroad, with the countries that SSI has already an agreement in place for this category of pensioners.

We successfully met two of the main objectives for 2020 regarding Credins Bank Kosovo, such as: the agreement with SWIFT and the opening of accounts with the correspondent bank, which were two of the main issues for carrying out payments.

We successfully met the 2020 target of Universal Confirmation - Universal Confirmation. This process was automated in cooperation with the IT department. This objective had to be met so that the bank could comply with SWIFT obligations. This initiative binds each bank to confirm the transfer credit in favor of the beneficiary: the credited amount, commissions withheld and the processing time by increasing the transparency with clients. The RMA relations with the banks were also renewed, in order to fulfill bank's obligations towards SWIFT.

The transfer process under investigation was enhanced, enabling further automation of this process, saving time, accuracy and human resources.

There have been increasing foreign currency transfer transactions, which are regarded as a factor to the reliability and progress of cooperating



with non-resident banks, leading to increased mutual cooperation with these banks.

During 2020, Credins Bank has processed in real time a significant number of transfers through AIPS and AECH systems and correspondent banks. Total number of outgoing transfers processed by the Operational Department increased by 20% compared to 2019, and the number of incoming transfers increased by about 10% compared to 2019. Payments through digital channels such as payment of utilities, taxes, customs duties, and bank transfers within and outside the country increased significantly. Off-bank transfers, in ALL and foreign currency respectively, processed through e-banking increased more than 220% in number compared to 2019.

Trade Finance Instruments such as letter of credit, foreign guarantees and "Incasso" continued to be part of the payments and bank commitments by providing clients with a professional and correct service. Given the difficult situation, the processing with these instruments was maintained stable. In fact, the incomes generated from these transactions were slightly increased by nearly 2.5% compared to 2019.

Credins Bank is one of the leading banks in the country for salary and pension processing service for companies and government institutions, with an ever-increasing trend throughout 2020. Given the volumes performed for all payment services, revenues from commissions have increased compared to 2019.

IT DEPARTMENT

Credins Bank, always focused on innovation and new developments, continued throughout the '20s to take important steps for increasing the number of products and improving the services offered in digital channels. In line with the strategy of digitizing and improving the experience of our customers on Credins Online platform, we offered throughout the '20 new functions in order to adapt to the new reality caused by COVID 19. Credins Online became an extraordinary alternative channel enabling customers to perform banking services online directly from home, without having to come to the bank's branches.

To keep up the pace with the latest technologies and innovations, Credins Bank continued to focus on developing the Credins Online platform to serve all segments: individuals, small and medium-sized businesses and corporations. Our main objective is to simplify the customer banking experience by using the best experience in innovative channels.

The pandemic gave further impetus to the use of

digital channels nationwide and worldwide, becoming a normal way of functioning and everyday life. The use of digital channels and E-Commerce services also increased significantly within the country. But it is worth noting that the performance on Credins Online platform during the '20s compared to previous years and the banking system, increased significantly due to the continuous efforts for new developments, upgrade of existing functionalities, immediate and direct communication and support to any customer. Combination of all these factors enabled '20 to be closed with satisfactory results in terms of all key indicators such as: increasing number of new customers who downloaded and used the application, increasing number and volume of transactions performed directly in application, increasing users in the use of more functionalities, etc. However, some key indicators need to be pointed out, such as: increasing number of users by + 62%, + 9% of accounts accessible in the application versus total bank customers, etc. Many clients became regular users of the application by channeling their bill payments (+ 164%) every month, and the number of transactions also increased by + 88% versus 2019.

As of November '20, based on the data of the Bank of Albania, Credins Online ranks with a market share of 8.3% against the banking system. It is characterized also by a significant increase both in number of transactions (+ 13%) and in volumes (+ 7%) versus the market.

The development of a support system with dedicated staff for the application users is also to be highly appreciated. The aim of this support system is to provide direct communication through several communication channels (call center, email, whatsapp, etc.). This process has had a positive experience with all application users to establish a closer connection with the bank through personalized service.

To be closer to customers and in line with technological developments, we have worked non-stop to provide users with a simple and complete experience throughout the '20s. Thanks to additional functionalities in the application, customers have been provided with new services such as: online deposit applications, account opening, full access to use all functionalities, blocking and unlocking cards in case of loss or theft, application to be informed in real time, prepaid card replenishment, etc.

Objectives for '21 continue to be ambitious so that new innovations are implemented. Interesting projects are in store for the future so so that the application can be further developed and upgraded to make the experience of each client unique, beautiful and simple.

TREASURY DEPARTMENT

2020 marked a year full of previously unprecedented challenges, of a completely new nature for the domestic Banking Market and Global Financial Markets. Even though the difficult conditions created by the Covid 19 pandemic, uncertainty of financial markets, which continue to operate with low interest rates, which is still negative for EUR currency, the performance of the Treasury Department, under the guidance and support of management, was positive throughout 2020.

Our main focus was fulfillment of the main objectives such as liquidity management, support of bank's key activities and increasing incomes from the main activities, such as investments in securities and foreign exchange, transaction channeling at Credins Online. Of great importance during the difficult pandemic period was coordination of remote work to achieve the set objectives.

Incomes generated from the activity of Money and Securities Market Sector increased by 18% compared to 2019. Bank's deposit portfolio increased significantly leading to increased stability of funds particularly by individuals. Foreign exchange incomes increased by 5% compared to 2019.

The special focus during this year was cash management, due to the restrictions imposed by the pandemic situation. Thanks to the close coordination with the branches and correspondent banks we were able to overcome difficulties and to meet at all times customers' requests for cash and foreign exchange.

Throughout 2020, the focus of Credins Bank as one of the five banks selected as Market Developer for reference bonds, was to increase securities trading in the secondary market. During this year, the Treasury Department worked closely with the World Bank, the Ministry of Finance, and other Market Developers to find opportunities to revitalize this market, which is not being used by market players. The Treasury Department continues to train the branch sales staff on a regular basis, in order to provide clients with complete information on the operation and rules of reference bond auctions. Any client of the bank can find information online on the bank's website about the quotation of reference bonds by finding the right moment to invest.

One of the strong points of Credins Bank is provision of tailored products, according to the requirements and financial capabilities of the client. New issuance of bonds in 2020 was successful as the demand exceeded the offer. This product is considered by the clients as a very good investment alternative. This is the 11th year in a row that Credins Bank continues

to be the leasing custodian of bonds issued by joint stock companies, offering both competitive conditions and expertise in this area. Credins Bank was licensed by the Financial Supervisory Authority to provide securities brokerage by expanding its entire range of securities operations to the stock exchange and secondary market.

Effective liquidity management, lower operational costs, increasing foreign exchange transactions carried out through e-banking, provision of treasury products through Credins online, promotion and increasing transactions in the secondary securities market and securities stock exchange, are the main objectives of the Treasury Department for 2021. The challenge of the latter even in difficult pandemic times remains the follow up of financial markets performance by a qualified staff and providing better investment opportunities to customers.

CARDS DEPARTMENT

2020 has been a year of unprecedented challenges. In the relevant circumstances, the Cards Department needed to address specific situations created by the Covid 19 pandemic. The Cards Department was faced with the pressure of increased workload, related to increasing volume of online transactions and consequently growing customer contacts, requests and claims to be provided with fast, operational and flexible solutions.

The Cards Department, using all available systems, with an increased commitment and dedication, and working overtime all the time, assisted its customers with any problem, request, need, and made easier the use of card products and services, in the circumstances when it was impossible or there were limited possibilities to appear at the bank branches. Regardless of the workload, the customers and branches were ensured to be provided with the same fast and qualitative service.

Transmitting the overall spirit of the bank to be closer to customers in this unusual situation, the client has been provided assistance for all its requirements and needs thanks to the accelerated and adapted procedures on a case-by-case basis. Clients living abroad, who due to the situation have not been able to travel, have been assisted as appropriate.

During 2020 in particular, as never before, everyone turned their eyes and attention to online services and products, electronic payments, cards, e-commerce, and online transactions. The work during this period did not reduce and slowed down, on the contrary,

the Cards Department faced increasing requests for certain products and services. This Department has provided constant and ongoing support to branches and customers, particularly by assisting them in online transactions, since there is no set time and distance for electronic payments. On the other hand, the increasing number of online transactions was accompanied by an increased monitoring and follow-up by the staff dedicated to this service.

Suspension of various businesses, closure of flight companies and cancellation of tickets and bookings, led to growing requests, need for assistance, complaints for these types of transactions, charge back processes, etc. which have been followed carefully, on time and without any delay, until their successful address in favor of customers.

During the isolation period businesses needed and required to be provided with the e-commerce service. All e-commerce requests and applications undergo a long communication process within and outside the bank (with the processor), a detailed analysis and verifications, registration and management of testing phases until the "live" launch. All these phases were accomplished in record time, enabling businesses to take advantage of this contemporary alternative offered by Credins, by accepting card payments on their business websites. In addition to the comfortable, convenient and fast online payments, the key to the operation of this technology is security. E-commerce demand increased by 75% compared to 2019, while the activity of this service increased by 82 % compared to 2019.

Total portfolio of Credins cards issued in 2020 increased by 11%, while the active card ratio increased by 13%.

The Credins cards are of Contactless technology, an innovation of electronic card payments, which enables customers to make fast payments (no contact), without the need to enter the PIN code for completing the transaction. To facilitate and accelerate card payments at points of sale in 2020, due also to the pandemic situation, the "contactless" limit for transaction was increased to 4,500 ALL.

The growth of individual cards is stable, while business cards have marked a significant increase of 59%. The bank's relationship with public institutions has been consolidated. The activity of the latter is specifically supported by card products dedicated to this segment, which facilitate the activity of such institutions considering also the nature and the special way of their operation.

Regardless the extra work, the Cards Department has followed with no delays the projects related to the products and services offered, and the improvement of related technology, by successfully implementing some of them.

The project that increases the level of security for online shopping by adding new elements has been completed. Another project is being implemented in order to improve this service through risk-based analysis. The online transaction process shall, therefore, be more frictionless and safer, without affecting its duration.

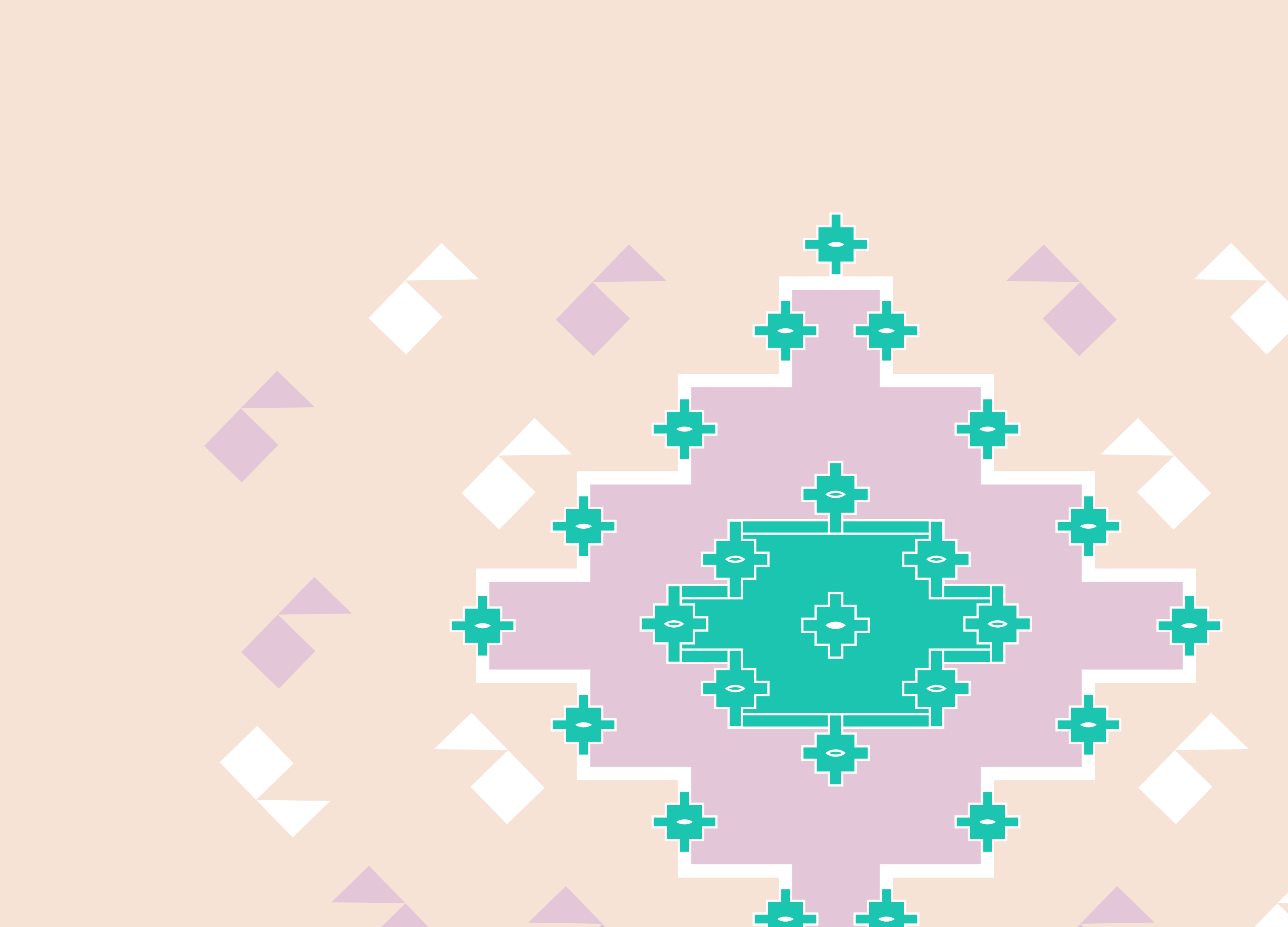
The card personalization project on site is in its final testing phase. This will significantly reduce the time of receiving the card from the moment of application. Upon the completion of this project, the client will be able to receive the card within 2-3 days.

The project for accepting payments at Credins terminals in Euro, including physical and virtual terminals, was launched in 2020 and is in progress. As a result, the acquiring activity of the bank will be expanded.

We have worked with a lot of dedication and commitment for the Visa and MC project of Credins Bank Kosovo. The licensing phase is closed and the project is already under implementation.

The bank's position in the banking market regarding card products has been consolidated, both in terms of increasing volumes, and the quality of their delivery. The top priority in the area of electronic payments and a permanent challenge for the bank is the support, expansion, improvement and diversification of the portfolio of card-related products and services.

We rely strongly on the principle that every customer, individual or business, either public or private, can and should easily find at Credins what they need and what is best for them, i.e. the product and service that best suits their specific needs.



BOARD OF DIRECTOR

MALTIN KORKUTI
MEMBER

JONAS HASSELROT
MEMBER

MONIKA MILO
MEMBER

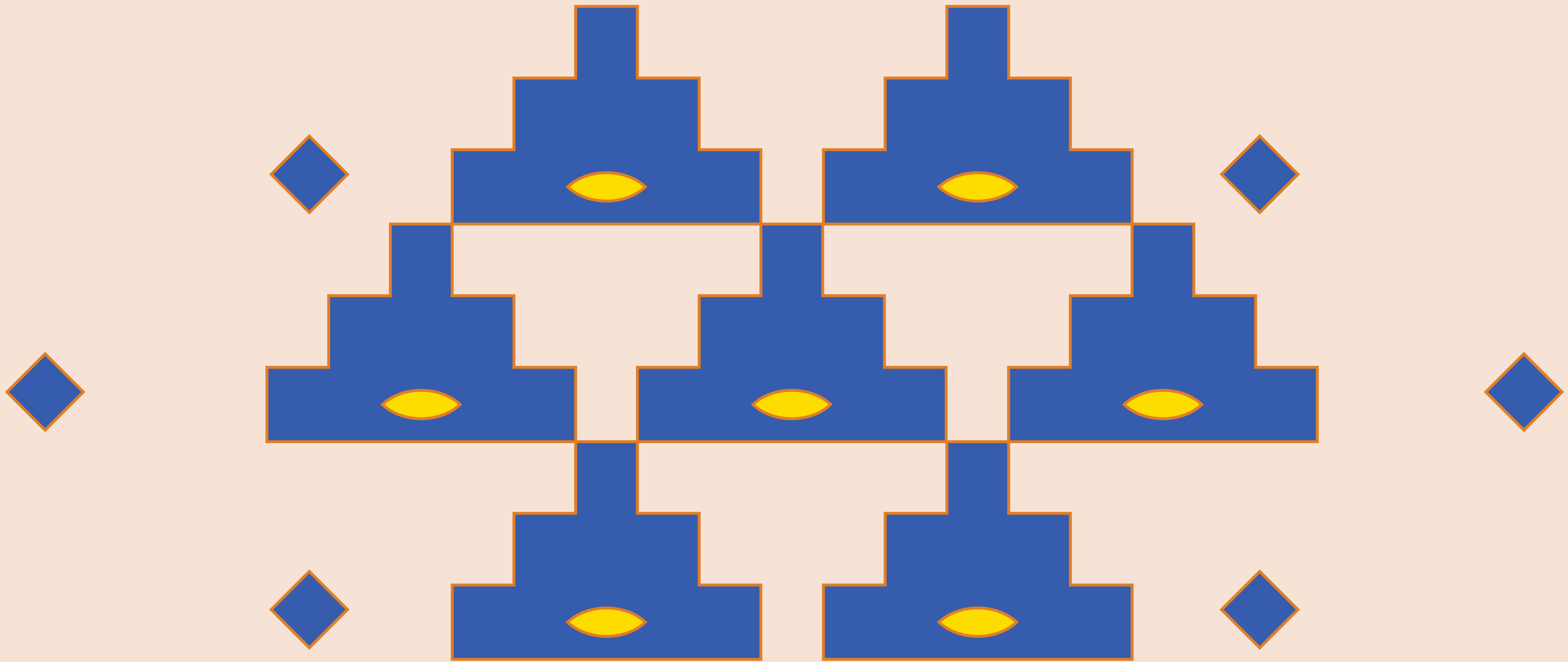
RAIMONDA DUKA
MEMBER

ELTON TORO
MEMBER

CLIVE MOODY
DEPUTY CHAIRMAN

SAJMIR SALLAKU
CHAIRMAN





SOCIAL RESPONSIBILITY



MONIKA MILO
DEPUTY CEO

Due to the pandemic, we, as a bank, were faced in 2020 with difficulties unforeseen and previously unanticipated situations. Our Bank, however, was not set back and continued to work in line with the bank's strategy for the growth and development of businesses and the economy, giving unconditional support to all customers and staff of the bank. Moreover, the particular focus of Credins Bank executives and shareholders were immediate and ongoing initiatives towards corporate social responsibility.

Upon the outbreak of the pandemic and total lockdown of the country in March 2020, the bank's management staff undertook a rapid action plan to adapt to the new reality and provide maximum protection against the spread of Covid-19 to staff and customers for a better functioning of work processes.

The action plan, implemented immediately throughout 58 branches of Credins Bank, was accompanied by an immediate increase in

hygiene measures. At the same time, regular and qualitative coordination of working remotely was ensured, providing all the necessary infrastructure for the bank's activity and guaranteeing security and optimism to each client.

Although being a difficult year, Credins Bank has supported, as always, more than 60 projects in line with the 17 UN Objectives for Sustainable Development.

The main focus was our support to the health sector, both by

financing and providing facilitating lending measures, and by donating equipment and other devices for many hospitals and health centers across the country, in their most critical moments, in order to enable the latter to provide the best service to citizens.

Throughout 2020, we continued to contribute to the fight against poverty by helping the needy, especially in such a difficult year. We donated food to poor families by cooperating with international institutions such as the Red Cross, etc. During this year, we have also been close to the students of various schools in Albania, by donating computers and other materials, to improve the infrastructure for a better teaching. At the beginning of the school year, considering also the pandemic situation, we donated to all students in financial difficulties masks, gloves and other disinfectants so that they could cope with the situation. Also, we donated bags and teaching tools to the children of SOS village for a good start to this sensitive school year. At the same time, it is worth mentioning that we have also supported our staff by providing assistance to their family disasters (ancestor/descendant). 28 employees have been provided support in the form of monthly salaries, as well as 27 employees have been provided assistance for home reconstruction after the earthquake of November 26, 2019.

Upon the end of total lockdown, we supported the project "Green Balconies", an interesting initiative to increase green spaces on the balconies of the capital. Credins Bank is one of the most active institutions in terms of environment related projects and as every year, we continued to plant trees in several cities such as: Kruja, Fier, Shkodra and Tirana. This is an impressive initiative. Bicycle parking stations have been set up in every branch of Credins Bank, in order to encourage the bank's staff and clients to use bicycles for a better quality of life.

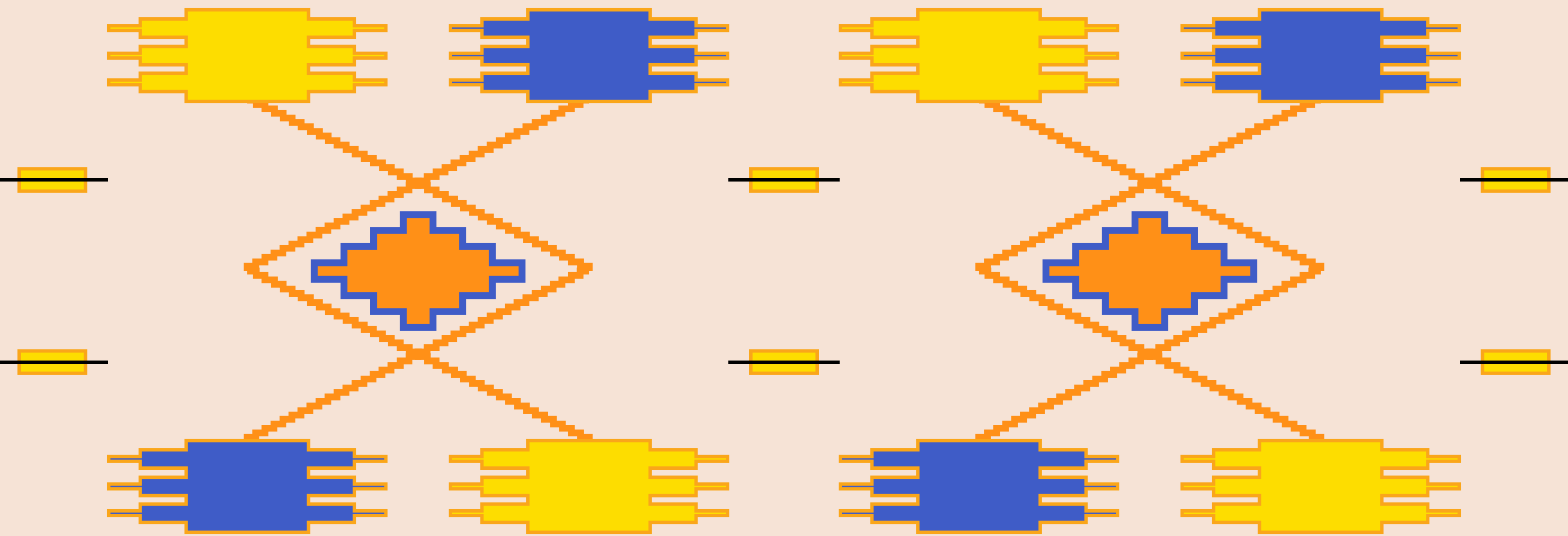
The focus of activities undertaken continued to be the support of Agro business to consume local products, which was promoted at the fair "Enjoy local products of Tirana", or at the event "Agro-Tourism: primary investment sector". Such events promoted the role of Credins bank as a supporter of farmers throughout the country with banking products and services tailored to their growth and development needs.

Credins Bank, an important player in building

an active community of cities with sustainable development, supported many promotional activities of art, culture and sports throughout the country by providing an exceptional support to Albanian artists especially in: publishing literary works, concerts of famous Albanian singers, opening art exhibitions within the Bank premises, etc. It is also worth mentioning the support provided to start-up businesses in Albania and the region, as well as the innovative ideas presented in various competitions such as Hakathona, contributing to further development of the economy and technology. This is also a very good opportunity for the employment of talented young people.

Social responsibility is at the particular focus of Credins Bank, its managers and shareholders, as we strongly believe that the bank's ongoing growth and development is linked to an overall development of the country's economy and well-being of all citizens. Credins Bank will continue to contribute to all the main pillars that affect development and overall well-being of the country and its citizens, Moreover, we will be the closest partners as only together can we create a better future for ourselves, our children and our descendants.





PROJECTS DEPARTMENT

A BRIEF DESCRIPTION OF THE UNIT'S BUSINESS MODEL.

Credins Bank is already one of the largest banks in the country in terms of market position, business volume and level of infrastructure. We are a developing bank and an important player in the market. The Bank have an indisputable competitive advantage thanks to its strong position in the local market. It is one of the leading players in the market showing unparalleled ability to expand its activity even in unfavorable market conditions. Over the last three years we have made achievements in various areas such as modernization, technological enhancement, comfort and efficiency of our front office employees. Therefore, we have created the basis for sustainable and long-term growth. The bank offers a wide range of product lines for all types of customers, including non-banking services. As a result, it can provide its customers with comprehensive, high-quality services.

We are developing the traditional branches of the bank and at the same time we are investing in creating a modern Bank that delivers various internet services. The modernization and technological improvements program has been going on throughout 2020 to support the strategic objective for generating more business through digital banking. Significant investments have been made to support business transformation and strengthening of the IT infrastructure through digitalization, system technological developments and ongoing infrastructure developments. Credins Online platform has undergone significant transformations both by growing and improving functionalities and by simplifying how they are used by customers. Our current challenge is the transformation of the operating model, in order to strengthen the focus on customers, while simplifying and improving the efficiency of operations, so as to provide a base with lower and more stable costs, by using digitalization as an opportunity to support transformation.

After the consolidation of the bank's business in the Albanian market, during 2020, the plan to expand its activity in neighboring Albanian-speaking countries began and the first project was the opening of Credins Bank in Kosovo.

POTENTIAL, FUTURE DEVELOPMENTS OF THIS UNIT.

Credins bank's strategy for 2021 - 2023 aims to strengthen its position as one of the main and stable financial institutions in the country. To establish a stronger and growing Bank, we have identified four priority areas for development, based on existing competitive advantages, in order to maximize opportunities and have long-term profitability in the future. We will build on existing competitive advantages, such as market position, business size, variety of products and services, to further transform our commercial business model.

Our strategic plan for 2021 - 2023 is based on the work of previous years, by taking the right actions to move forward. Creating a model for sustainable business growth is our main focus. We will continue to increase branch productivity, to attract new customer, financial performance, focusing more on team members' skills, accountability and competence. We want to be the first choice for our customers, providing a consistent experience across all channels by making regular investments in innovative products and personalized services.

Our business model is constantly enhanced to have high efficiency of governance and operations, reduction of complexity, and a more cost effective structure. We will continue to build a strong foundation for innovation, consolidation of operations and simplification of information technology processes and systems as much as possible. Increasing digital capacities and strengthening alternative distribution channels. Our goal is for customers to interact with us through multiple channels. We will continue to strengthen our multiple channels in line with customer preferences, in order

to increase the level of services and sales by actively developing products and technologies. It is expected that most of the day-to-day operations and some of the sales be carried out via alternative distribution channels.

One of the bank's priorities over the years has been investment in human resources, a commitment that will go on in the future. The Bank has a consolidated infrastructure of staff recruitment, training and motivation which is continuously enhanced. The focus of investments in human resources over the next three years will be to improve technical and managerial skills of the staff and to modernize its processes and procedures for human resources. Given the challenges we face, a new generation of managers with know-how both in their area of expertise, but also leadership, innovation and technology skills, is needed. Our main objective is to develop talented employees by providing position-tailored training.

The Project Department has been engaged throughout 2020 in the following activities:

– Licensing by BOA for new activities. Finalization of the licensing project by BOA for three new activities: derivatives trading, securities underwriting and advising on certain activities.

BOA supervisory Council at its meeting held on 02.12.2020, approved the application of Credins bank to be licensed for new activities.

Preliminary approval for Credins Bank sh.a. to perform additional financial activities.

Based on this approval, Credins Bank sh.a will perform the following additional financial activity:

- a. Making commitments;
- b. Trading on its own account or on behalf of customers, whether in a foreign exchange, over the counter market (OTC) or otherwise, as follows:
 - i. Derivative products (derivative instruments), including, inter alia, futures contracts and options contracts;
 - ii. Other negotiable and financial assets;
 - iii. Participating in the issuance of all types of securities, including underwriting and placement as an agent (both public and private) and performing services related to these issues;
- c. Intermediating the following monetary transactions:
 - i. Administration of assets such as cash and portfolio management, fund management;
 - ii. Service for compensating and settling payments of financial assets, including securities, derivative products and other negotiable instruments;
 - iii. Providing and transferring financial information, as well as processing financial data and related programs, from suppliers of other financial services;
- d. Consulting, intermediary and other ancillary services for:
 - i. intermediating custody, deposit and trust cash transactions;
 - ii. trading on its own account or on behalf of customers, whether in a foreign exchange, over the counter market (OTC) or otherwise for gold transactions;
 - iii. trading on its own account or on behalf of customers, whether in a foreign exchange, over the counter market (OTC) or otherwise, of transferable securities;
 - iv. all activities specified in letters “a” to “c” above, including credit and analysis reference, investment and portfolio research and advisory, as well as advice regarding purchases, strategy and company restructuring.

Upon being granted the permission to carry out the above activities, the bank is licensed to carry out all activities permitted by law.

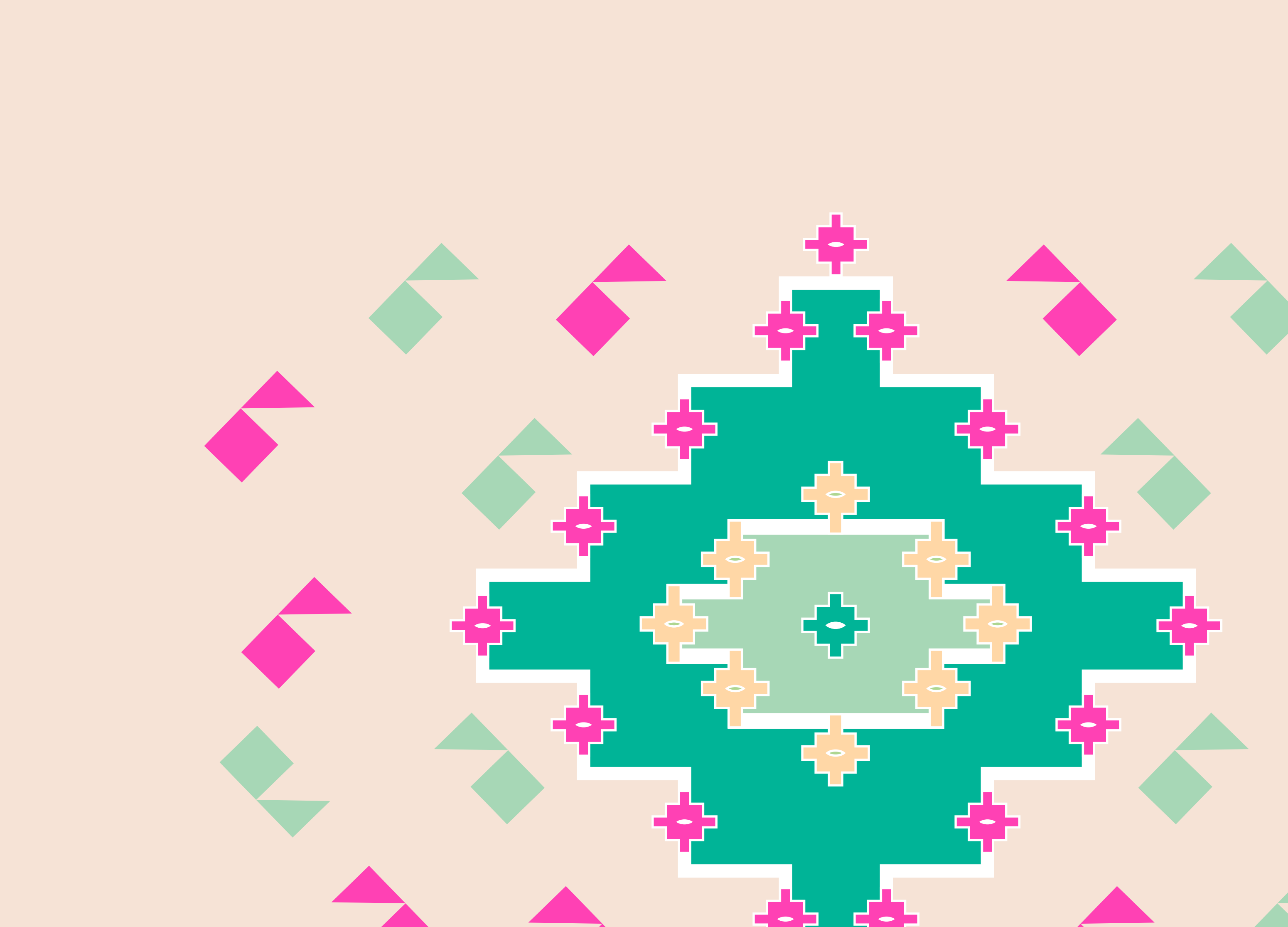
Process re-engineering. The process re-engineering project started in 2019 and has continued throughout 2020. This project aims to increase the efficiency of our processes and procedures to reduce complexities and provide the necessary capacity for growth. The purpose of business process mapping is to provide a more detailed understanding of the process, people, data, controls, results, and then to simplify as much as possible the above, as well as make them more efficient and improve process results. The processes have been identified in 2020 and their mapping has been completed to 90%. In 2021, the rest of the processes will continue to be mapped and then, we shall move on to the third phase of analysis and re-engineering. The mapped processes will be studied and their potential changes will be determined in this phase in order to improve the processing timeframe and avoid duplications and losses.

Electronic archive: This project aims at establishing a central information system for managing documents which provides the construction of a repository of documents in electronic form fed by internally created documents (other systems or scans) or by third parties. During 2020, we worked on the system architecture and its adaptation to the bank’s needs.

Signing the agreement with DIA on “Providing the service of the agent bank for the compensation of insured deposits”. On 27.01.2021, Credins Bank and DIA signed entered into the contract on “Providing the service of the agent bank for the compensation of insured deposits” for a three year term. DIA selected Credins Bank as one of the 3 agent banks to carry out the deposit compensation process. DIA started the selection process of agent banks on 18.09.2020 by inviting all member banks of the deposit insurance scheme to submit their expression of interest. The selection process was formalized by the Decision of the Board of Directors of the Agency no. 39, dated 15.12.2020 “On the selection of agent banks in the preliminary list for completing the compensation process”, in accordance with all criteria. Credins Bank was ranked second in the preliminary list of 3 selected banks.

Drafting the medium-term strategy of the Bank 2021 - 2023 and submitting it to the Board of Directors for approval. This document was developed in cooperation with other units of the Bank and is discussed at the last meeting of the Board of Directors.

Third parties relations (EIF, Cosme project). Given the difficult situation created by the Covid-19 pandemic, in cooperation with EIF (European Investment Fund), within the Cosme project, the clients were provided with temporary improved conditions of the guarantee scheme which aimed to facilitate the use of the relevant scheme.



HUMAN RESOURCES DEPARTMENT

HUMAN RESOURCES DEPARTMENT STRATEGY

The most valuable asset of our bank are the employees. The main objective of Human Resources Department throughout the difficult year 2020 has been the health of our employees. In parallel with the main objective, the annual objective continues to be increasing job satisfaction of each member of the large Credins family, through their continuous development and constant evaluation through a fair and competitive system of incentives. We have trusted our team, by enhancing benefits, increasing investments in training and recruitment and the development of human capital.

KEY DATA

36 years old
is the average age of the staff

964%
employees in 2020



55%
generation Y,
22-35 years old

33%
generation X,
36-50 years old

12%
Baby Boomers,
over 51 years old



In 2020 there were
5 percent employees
more than a year ago

The number of employees at managerial level was 19%, 71% are female executives and only 29% are males. 41% of staff work at the Head Office and 59% belong to the branch network.

It is worth mentioning the extraordinary work that Human Resources Department did throughout 2020 to manage the situation created by the Pandemic. The main challenge of 2020 has been care, management and replacement of staff.

Special attention has been paid to quality recruitment. 706 job interviews and 360 tests were performed. 86 employees were recruited in total; about 81% were employed in branches. Staff evaluation and promotion has been one of the main important actions during 2020. A total of 81 employees have been promoted.

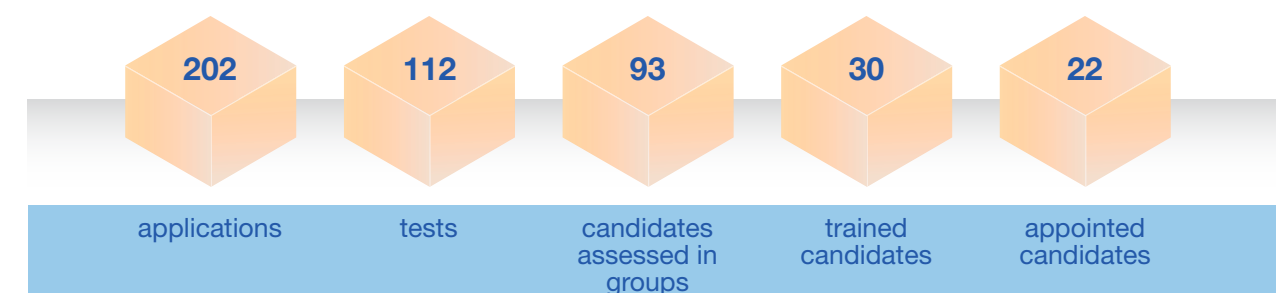
A total of 45.262 training hours were conducted, of which:

- 6.838 training hours for the existing staff,
- 15.200 training hours for new employees,
- 20.200 training hours for the staff that has been appointed to new positions or has been promoted,
- 3.024 theoretical training hours during the second program #youarecredins.

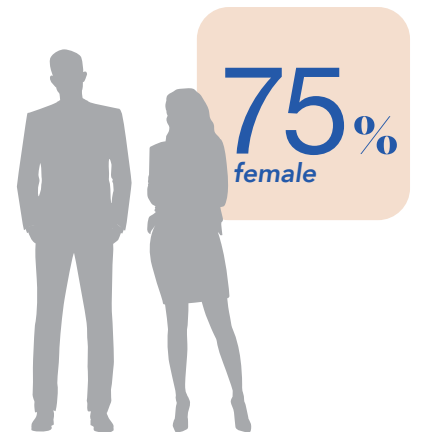
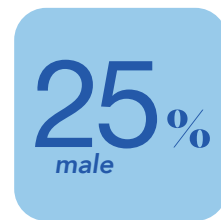
In the framework of protecting occupational health during the second half of the year, investments were made for the implementation of the Online Learning Management System, LMS. This system provides both online training and other materials for developing the Bank staff, in order to limit classroom training as much as possible.

#YOUARECREDINS PROGRAM

During 2020, some of the new employees dealt with the recruitment program and trained students graduated in economics, information technology and law with an average over 8. They were selected through classroom testing and group assessments. The interns to this program are trained in theory and practice by the best experts of the bank, and by external trainers as well, in order to develop technical skills, especially selling abilities. Statistics related to this program are shown in the following figure:

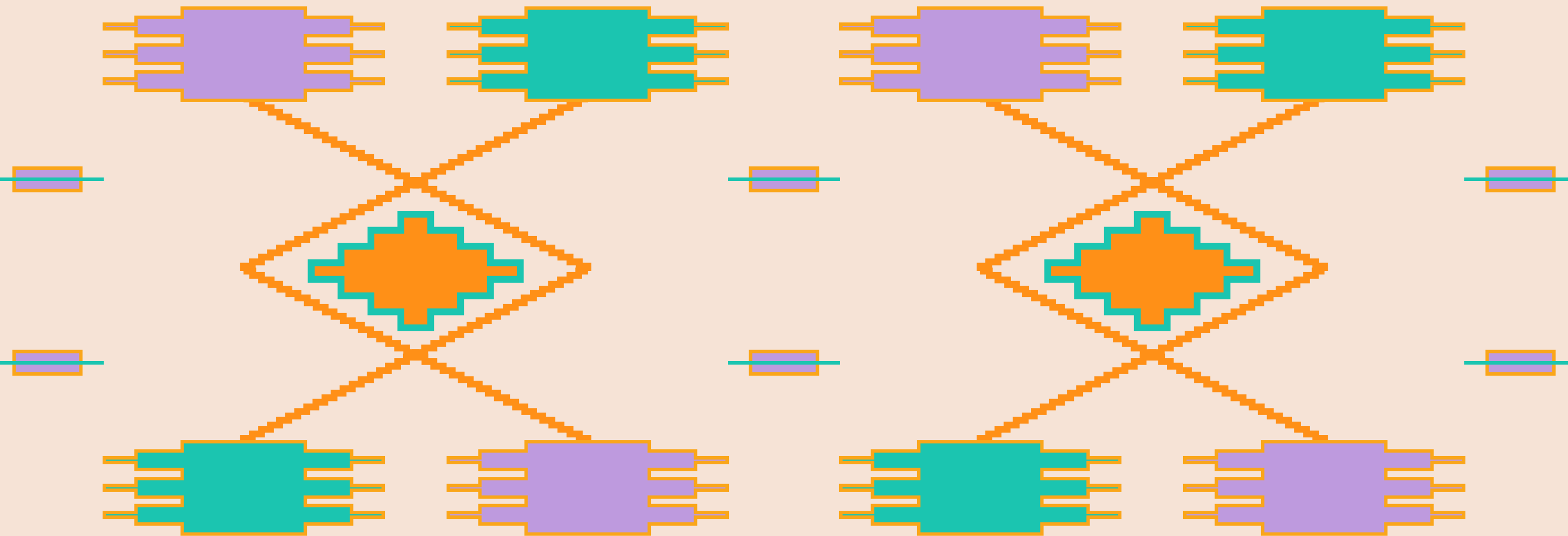


The ratio male/female by the end of 2020



In 2021, the Human Resources Department will continue to invest by absorbing and recruiting the gifted people. The priority of this department will be intensive trainings by providing appropriate conditions for building the capacity of each new employee as well as for developing professionally existing employees.

The activity of Human Resources Department has also been focused on drafting and reviewing Regulatory Acts. During 2020, a total of 60 Regulatory Acts have been designed, divided into 17 new drafts and 43 reviews.



CORPORATE GOVERNANCE

INTERNAL MANAGEMENT

The Bank operates in accordance with the legal and regulatory framework for the banking system in Albania, relying at the same time on various internal acts designed for better governance, such as the Guideline to the Best Principles of Corporate Governance, an internal act approved by the Board of Directors which is based on international best practices of corporate governance.

The bank is committed to have a good corporate governance by developing and furthering:

- Responsible, accountable and value-based management;
- Effective oversight and executive bodies that act in the best interests of the bank and its shareholders, including minority shareholders, and seek to enhance shareholder value in a sustainable manner; and
- Appropriate information disclosure and transparency, as well as an effective system of risk management and internal control.

The foundation of trust among shareholders, directors and managers consists of four corporate governance pillars:

- **Transparency:** The bank shall ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the bank, in a manner easily accessible to interested parties.
- **Accountability:** Directors shall be held accountable for their decisions and actions to shareholders, and, in certain cases, key stakeholders, submitting themselves to rigorous scrutiny.
- **Fairness:** The bank obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders.
- **Responsibility:** Directors shall carry out their duties with honesty, probity and integrity. The bank recognizes the rights of other stakeholders as established by laws and regulations, and encourages co-operation between the bank and stakeholders in creating sustainable and financially sound enterprises.

The Management and Administration Bodies of the Bank are:

- General Assembly of Shareholders;
- Board of Directors;
- Executive Directors
- Audit Committee

GENERAL GOVERNANCE STRUCTURE

The bank has the following governing and other bodies:

The General Assembly of Shareholders is represented and constituted by all the voting shareholders of the Bank. It is the highest decision-making body that decides by the decision or resolution of the simple or qualified majority about any issue as defined in the Articles of Association or the law No. 9901 “On Entrepreneurs and companies”. The decisions of this body are binding on all the shareholders, the Board of Directors, members of the High Management and employees, or representatives of the Bank.

The General Assembly of Shareholders can take valid resolutions by simple majority only if shareholders owning more than 30% of the shares with voting

right are present or represented in the meeting, on issues such as: approval of the bank and financial policies and the limits of the business operations of the Bank; approval of the financial statements, the progress reports of the activity and the budget of the Bank; release of the Board of Directors and/or the High Management from financial liability arising - with respect to specific cases - from performance of the management and administration functions of the Bank, in special cases; appointment of the authorized chartered accountant, and his remuneration scheme; approval of third parties agreements for the Bank’s management and administration; the approval of the sale of the Bank assets the book value of which is in excess of EUR. 1,000,000 (one million); remuneration of the Board of Directors, salary and remuneration of High Management, remuneration of Audit Committee members as well as the remuneration of the members of any other committee of the Board of Directors; appointment and dismissal of the members of the Board of Directors and the other members of the Management, except for the CEO and appointment of the Vice Chairman of the General Assembly.

Resolutions by a qualified majority are valid only if the Shareholders, owning more than 50% (fifty per cent) of the shares with voting right are present or represented. If this quorum is not reached at the first meeting, a second meeting with the same agenda may be held at a later date, but not later than 30 days from the date of the first meeting Pursuant to the Articles of Association, qualified majority means a majority of 3/4 (three fourths) of the votes of the present or represented shareholders, of the meeting of the General Assembly. The valid votes do not include the votes of the shareholder who does not participate in the voting process, due to conflict of interest (the cases defined in article 148 of the Law “On Traders and Commercial Entities). The General Assembly of Shareholder resolves with a qualified majority on the following matters: amendments to the Bank’s Articles of Association; undertaking of the Bank’s instruments, obligations or financial debts, above a certain value to be determined by the Board of Directors; appointment and dismissal of the Chief Executive Officer; purchasing and possessing real estate above EUR 1.000.000 (one million). When such purchases are related to the execution or possession of collateral pledged in favor of the Bank when borrowers fail to pay their obligations in due time, the General Assembly shall be informed in advance of such purchases. In special cases, when the General Assembly is not informed in advance because of reasonable circumstances or specificity of a certain case, the notification and/or approval shall be made immediately in the next meeting of the Assembly; dissolution, reorganization, merger, division of the

Bank; establishment of new subsidiaries and branches of the Bank abroad; reduction or increase of the capital of the Bank; distribution of profits based on the annual financial statement and the annual report of the Bank; approval of the procedures for the gathering of the General Assembly meeting and the participation; issuance of long term bonds (subordinated debt); approval of the agreements for incurring subordinated debt of the Bank; matters other than the above mentioned, which require the decision of the qualified majority. The General Assembly shall approve by qualified majority decision, the allotment of not more than 2% of the new shares of the Bank to its employees according to a project proposed, submitted and announced by the Management.

The **Board of Directors** is a decision-making body, responsible for the strategic management of the bank, and it is composed by 7 (seven) members (executive and non-executive managers), who exercise their functions for a period not longer than four years, but may be re-elected without limitation.

The Board of Directors controls and supervises the financial situation of the Bank, the functioning of the Bank’s organizational structures and the activity of the High Management.

The main responsibilities of the Board of Directors include amongst others: approving and supervising the implementation of the policies and strategies of the Bank related to business plan, risk management, annual budget; approval of any participation, investment or purchase and possession by Credins Bank of shares and activity of another legal entity, either within the Republic of Albania or outside it, when we meet the requirements of law, but not more than 30% of the shares of this legal entity; setting out long-term objectives of the Bank and monitoring their fulfilment; monitoring the effectiveness of management practices in the Bank and effecting appropriate changes for the purposes of improving such practices; establishing committees in cases where it becomes necessary for dealing with cases of special interest to the Bank, clearly defining the duration of their mandate, composition and working procedures; setting out the conditions and standards for the selection, remuneration, salary, appraisal and removal of the directors of the Bank, as well as monitoring the practices for the substitution of the staff; monitoring and dealing with potential conflicts of interests of the directors, members of the Board of Directors and shareholders, including dealing with the potential conflict of interests arising out of the misuse of Bank’s assets and transactions with the related persons; taking the necessary and adequate measures

for ensuring the integrity of the financial and accounting system of the Bank, including the independent auditing of the Bank, and ensuring the existence of the appropriate controlling systems especially with regard to risk management, operational and financial system of the Bank, as well as ensuring compliance with the law and best practices in the banking system; monitoring and supervising implementation of legal and regulatory requirements and of the best practices in banking system; supervising the process of disclosure of information and communication with the public; Defining the rules for the functioning and the operation of the internal control system; defining clearly and approving the remuneration policies of the Bank; Approving purchase and possession of assets with a cumulative value of over 500,000 Euro by borrowers of the Bank, in cases when these assets are offered for sale based on the execution procedure; Approving the sale of assets of the Bank to third parties with a book value of over 500,000 Euro.

Meetings of the Board of Directors of the Bank shall be held at least 4 times per year, and the quorum shall consist of at least 5 members being present. Decisions are taken through a simple majority of the votes. In case of equal number of votes, the chairman shall have a casting vote. The Board of Directors decides by a preliminary resolution with 2/3 of the votes, all transactions of the Bank resulting to an increase of the exposure to persons with a special relation to the bank.

Current composition of the Board of Directors is as follows:

Member	Position	Term
Saimir Sallaku	Chairman	June 2018 - June 2022
Clive Moody	Deputy Chairman	June 2018 - June 2022
Monika Milo	Member	June 2018 - June 2022
Maltin Korkuti	Member	June 2018 - June 2022
Elton Toro	Member	September 2017 - September 2021
Raimonda Duka	Member	May 2020 - May 2024
Jonas Hasselrot	Member	February 2020 - February 2024

The majority of the members of the Board of Directors must be individuals who, at the moment they are appointed and throughout the whole duration of their mandate, are not related to the bank through private interests, to the shareholders who are considered to have control over the bank as per Law, nor to its executive directors.

Members of the Board of Directors, while performing their duties shall comply with the highest ethical standards and act upon sufficient and adequate information, in good faith and at the best interest of the Bank with the due care and responsibility, fully committed to their responsibilities, in the best interest of the safety and sustainability of the banking and financial activity of the bank.

Senior Management organizes and manages on a regular basis the bank's business. It defines and may delegate the duties to the personnel, and supervises execution of the delegated responsibilities, in accordance with the approved policies and procedures. Senior Management takes the necessary actions to monitor and manage all risks to which the bank is exposed, in compliance with the approved strategies; implements the approved policies and strategies and ensures that risk management processes comply regularly with the risk profile of the bank and the approved business plan.

Senior Management is composed of the Chief Executive Officer and one Deputy Chief Executive Officer.

Member	Position	Term
Maltin Korkuti	Chief Executive Officer	May 2020 - May 2023
Monika Milo	Deputy Chief Executive Officer	December 2020 - December 2023

The Chief Executive Officer is also the Chairman of the Shareholders Assembly. The position of the Chief Executive Officer shall be governed by individuals who have been initially approved by the Bank of Albania. Chief Executive Officer of the Bank may be appointed only an individual who satisfies the qualifying criteria and does not fulfil disqualifying criteria for the administrators foreseen in the Law no. 9662, dated 18.12.2006 "On Banks on the Republic of Albania".

The Chief Executive Officer is appointed for a period not longer than 3 (three) years and can be re-elected, and he/she legally represents the Bank. The Board of Directors may authorize two members of the High Management to jointly represent the Bank for specific matters.

Senior Management informs the Board of Directors, in a duly and timely manner, on a regular basis, about important issues related to the bank operations, in particular related to the risk management, implementation of strategies and policies, as well as any deviation from the approved objectives, is responsible for the keeping the Bank's accounts in a proper manner and preparation of the financial statements in conformity with the law. The High Management shall present to the Board of Directors the financial statements at least three months after the closure of the financial year.

Committees at Council and Bank level

According to the Articles of Association, the Board of Directors has approved establishment of the following committees:

	Committees at council level				Committees at bank level			
	Audit Committee	Risk Committee	Remuneration and Nomination Committee	ALCO	IT and Projects Steering Committee	Strategy Implementation Committee	Policy and Procedure Review Committee	Product and Service Committee
Chairman	Elton Toro	Jonas Hasselrot	Raimonda Duka	CEO	CEO	Head of Project Management Department	CEO	CEO
Member	Erjon Saraci	Maltin Korkuti	Clive Moody	Deputy CEO	Deputy CEO	Head of Risk Management Division	Deputy CEO	Deputy CEO
Member	Eva Pango	Saimir Sallaku	(Vacant position)	Head of Financial Division	Head of Risk Management Division	Head of Financial Division	Head of Legal Department	Head of Financial Division
Member				Head of Operational Division	Head of Project Management Department	Head of IT Department	Head of Compliance and AML Department	Head of Operational Division
Member				Head of Risk Management Division	Head of Operational Division	Head of Branch Sales Management Department		Head of Risk Management Division
Member				Head of Business Development	Head of Business Development	Head of Marketing Department		Head of Business Development
Member				Head of Treasury Department	Head of IT Department	Head of Performance Management Unit		Head of Legal Department
Member					Head of Financial Division			Head of Marketing Department

Member					Chief of Information Security Sector			
Member					Head of Performance Management Unit			

The Audit Committee is composed by three members appointed by the Shareholders' assembly. This Committee audits and supervises the implementation of accounting procedures and internal control of the Bank; including the procedures defined by the Bank of Albania, and audits the bank accounts and respective registrations; considers internal audit reports and monitors the way conclusions from such reports are dealt with; proposes the authorized statutory auditor and realizes the communication between him and the internal audit of the Bank; evaluates the financial situation of the Bank based on the report of the authorized statutory auditor; controls compliance of the activity of the Bank with its laws and by-laws and notifies the Board of Directors of the Bank about the conclusions; provides an opinion to the Board of Directors of the bank in relation to issues, for which the latter has requested such an opinion; approves the financial reports and statements prepared by the Bank and which the bank intends to publish.

The Audit Committee holds ordinary meetings no less than three times a year, as well as extraordinary meetings when called by the Board of Directors of the bank. The decisions shall be taken by the majority of votes. Abstaining is not allowed. Members of the Audit Committee may not be employees as members of the Bank. Members of the Audit Committee may be members of the Board of Directors. Members of the Audit Committee are the bank's administrators for whom prior approval of the Bank of Albania is required.

The Risk Committee is composed at least of three voting members. Two members of this committee are non-executive managers and one is an executive manager. The chairman of this committee should be independent. All the committee members are directors selected for their competence and experience and at least two of the members should have experience in the banking system and risk management.

This committee advises and assists the Board of Directors in fulfilling the responsibilities related to the current profile and future risk strategy of the Bank taking into account the current and future financial and macroeconomic environment, such as: Risks in the business activity of the company; Harmonization of the bank's internal activity with the external legal and regulatory framework; Assessing and reviewing the risks to which the bank is exposed (credit risk, market, liquidity risk, reputational and operational risk, etc.), as well as reviewing and recommending for approval to the Board of Directors the general credit risk appetite and risk governance.

In addition to the members of the Committee, the Head of the Bank's Risk Division also attends the meeting. The Head of Financial Division, the Head of Audit and other senior management will be invited to attend the meeting as appropriate.

The Board Remuneration Committee is composed of at least three members all of whom are Non-executive directors entitled to vote. The Chairman is an independent Non-executive director. This Committee oversees the nomination and compensation system, reviews, assesses and recommends to the Board for approval nomination and remuneration policies, and practices, reviews the nominations of Executive and Non-Executive managers and their remuneration, ensuring that compensation is appropriate, consistent and aligned with: the strategic objectives of the Bank, long term business and risk strategies, performance and control environment, expectations and requirements of regulators.

Loan approving committees are ranked from the risk department to the Board of Directors according to the amounts and profile of the borrower's risk profile. These committees review and approve credit exposures and any lending issues.

Each committee is formalized in the internal regulatory acts.

Asset/Liability Management Committee (ALCO) is established with the decision of the Board of Directors of the Bank. The members and the Chairman of the Committee are appointed by the Board of Directors for an undefined period. Only the Board of Directors shall make modifications in the nominated members of the committee at any time.

The main purpose of ALCO is to protect the capital of the Bank and its investment, aiming at balancing the assets and the liabilities of the Bank considering the pricing and maturity structure in compliance with the respective laws and internal regulations. ALCO Committee is called at least once a month and whenever it is required by the internal regulatory acts. The chairman of the committee may call extraordinary meetings if deemed necessary.

The Products & Services Committee (PSC) is established with the Decision of the Board of Directors of the Bank. The members and the Chairman of the Committee are appointed by the Board of Directors for an undefined period.

The main purpose of PSC is to approve products and services which will generate incomes for the bank, in compliance with the business development strategy and plan approved by the Board of Directors of the Bank, the developments, the demands of the market and the targeted clients, as well as to modify the existing products and services.

The purpose of the **IT and Projects Steering Committee (ITPSC)** is to manage, review, monitor and prioritize projects as well as IT initiatives of Credins Bank from a cross-functional perspective. It ensures and advises the Management of the Bank on the successful implementation of IT projects and strategic initiatives of the Bank in line with the approved Strategy of the Bank.

The role of the IT and Projects Steering Committee is to monitor the progress of projects, to ensure the necessary support and orientation to achieve their objectives and compliance with the Bank strategy. Another role of this Committee is to monitor the activity of the IT Department.

The ITPSC is established with the decision of the Board of Directors of the Bank. The Chairman is appointed by the Board of Directors. The Deputy Chairman and the members of the committee are appointed by the Chairman. The Committee is composed of 9 members entitled to vote. The ITPSC will meet whenever it is necessary and when it is required by the chairman and/or members.

Policy and Procedure Review Committee is established with the Decision of the Board of Directors of the Bank. The members and the Chairman of the Committee are appointed by the Board of Directors for an undefined period.

The main purpose of PPC is to create, approve or amend, in compliance with the legal framework and the internal regulatory framework, the policies, procedures, regulations, instructions, manuals and methodologies as well as other regulatory acts in the Bank, guaranteeing the internal activity of the Bank in all aspects and in compliance with the existing regulatory framework.

The General Manager is the Chairman of the PPC and has the casting vote in case of equal votes. The PPC is called by the request of the Chairman of the Committee, according to the needs of the Bank and the requirements of the Board of Directors and the legislators.

THE CRITERIA FOR SELECTING AND NOMINATING ADMINISTRATORS

The Bank has developed a special policy for the selection, evaluation and remuneration of its Administrators, based on the legal and regulatory framework in force, as well as the best practices of Corporate Governance.

The Board of Directors assesses and ensures at all times that the new candidate or the candidate being promoted to an Administrator position is appropriate and meets all legal and regulatory criteria and requirements.

Interviews for new appointments will also take into account the behaviors that non-executive directors are likely to show in order to ensure that the environment of the Board of Directors Room is appropriate for the challenges expected and achieved. The Board aims that the majority of its members shall consist of independent non-executive directors, including the chairman of the board and the heads of the main Board committees, who must have experience in the banking and / or financial sector.

Some of the factors that play a role in ascertaining the inherent and perceived independence of the BOD member are:

- He/she has not been an employee of the commercial company in the last years
- He/she has no material relationship with the commercial company

- Does not get (other) salary from the company during his / her term as a member of the board (other than honorarium as such)
- Has no close family tie to any of the advisors, board members or key employees of the commercial company.
- He/she is not a member of the board or has no significant affiliation with other board members by involving in commercial companies or other bodies.
- Does not represent a significant shareholder.
- Is not a member of the Board for a long period.

The review of the Board composition will consider the advantages of diversity, including the gender composition of the Board, and will also seek to provide a geographical mix of directors, together with experience in various industry sectors. All nominees must have the financial knowledge required to properly understand the Bank's operations and the risks associated with them.

During the process of selecting candidates for members of the BOD or during the process of reassessment or re-election of current members, the Board of Directors ensures that knowledge, experiences and qualifications are combined at the same time with those of other members, in order to provide a collective, appropriate and balanced qualification.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATED TO FINANCIAL REPORTING

The Board of Directors and Senior Management are responsible for establishing and designing an appropriate internal audit and risk management system that includes the entire financial reporting process while observing the requirements of the company.

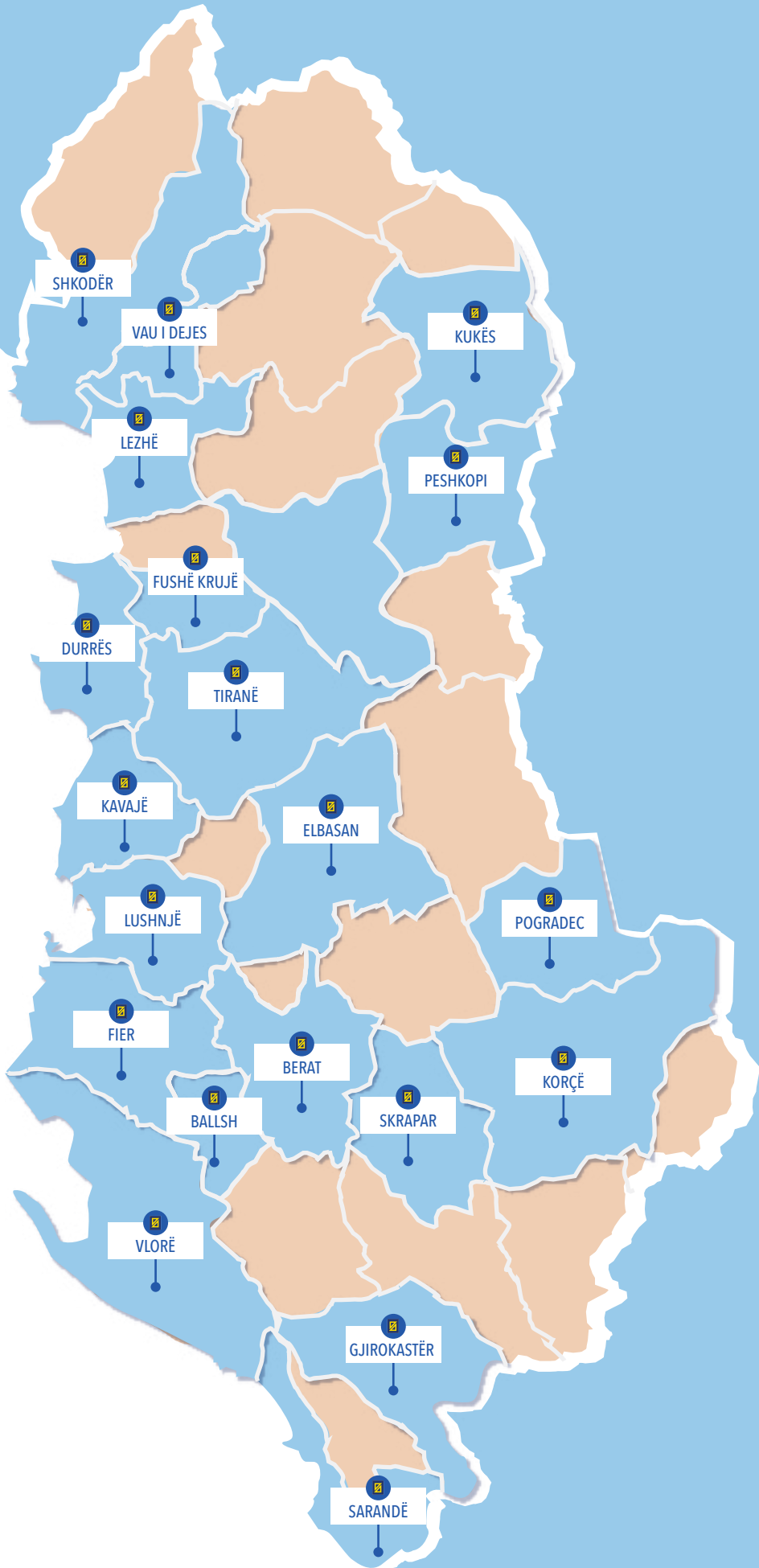
The Bank and its governing bodies are committed that the internal audit system ensures the integrity and reliability of the consolidated financial statements, protection of assets against unauthorized use or possession, and prevention and disclosure of false financial statements.

The Board of Directors through the Audit Committee has evaluated the company's internal control system according to the criteria for an effective internal audit. These criteria consist of five interrelated components such as: audit environment, risk assessment, audit activities, information and communication, and monitoring.

BRANCH NETWORK

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INDEPENDENT AUDITOR'S REPORT

BANKA CREDINS SHA

Consolidated Financial Statements for the year ended on
31 December 2020

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Independent Auditor's Report

To the Shareholders and Board of Directors of Banka Credins Sh.a

Opinion

We have audited the consolidated financial statements of Banka Credins Sh.a (hereafter referred as the “Group”) which comprise the consolidated statement of financial position as at 31 December 2020 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, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the 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.

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.

Grant Thornton sh.p.k.

Tirana, Albania
30 June 2021



Banka Credins sh.a.

Consolidated statement of profit or loss for the year ended 31 December 2020¹

	Notes	Year ended 31 December 2020 ALL '000	Year ended 31 December 2019 ALL '000
Interest income	3	8,973,173	8,873,051
Interest expense	3	(2,340,821)	(2,338,991)
Net interest income	3	6,632,352	6,534,060
Fee and commission income	4	1,169,700	1,131,895
Fee and commission expense	4	(162,559)	(185,415)
Net fee and commission income	4	1,007,141	946,480
Other expenses	5	(189,449)	(175,026)
Other income	5	1,394,046	177,372
(Loss)/profit from foreign exchange transactions		569,391	597,444
Net other income		1,773,988	599,790
Net impairment loss on financial assets	6	(3,470,836)	(2,517,839)
Losses from unrecoverable loans	17,18	(6,907)	(3,452)
Depreciation of property and equipment	20	(408,524)	(356,300)
Amortization of intangible assets	21	(73,311)	(34,064)
Depreciation of right-of-use assets	22	(347,961)	(328,721)
Personnel expenses	7	(1,647,761)	(1,503,125)
Administrative expenses	8	(2,364,500)	(2,113,742)
		(8,319,800)	(6,857,243)
Share of loss of associates	16	(7,166)	(6,731)
Profit before taxes		1,086,515	1,216,356
Income tax expense	9	(227,387)	(223,619)
Profit for the year		859,128	992,737

¹The notes 1 to 39 in pages 6 to 80 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity
for the year ended 31 December 2020¹

	Share capital	Share premium	General reserve	Revaluation reserve of investment securities	Retained earnings	Total	NCI	Total equity
	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000	ALL '000
Balance at 1 January	8,505,811	3,143,693	1,905,710	769,783	1,178,900	15,503,897	10,457	15,514,354
Profit of the year	-	-	-	-	996,893	996,893	(4,156)	992,737
Other comprehensive income	-	-	-	351,687	-	351,687	-	351,687
Total comprehensive income	-	-	-	351,687	996,893	1,348,580	(4,156)	1,344,424
Appropriation of retained earnings (note 32, 34)	453,046	-	302,030	-	(755,076)	-	-	-
Dividends	-	-	-	-	(453,046)	(453,046)	-	(453,046)
Issue of share capital (note 32)	652,211	551,092	-	-	-	1,203,303	-	1,203,303
Loss of control on a subsidiary	-	-	-	-	(1,549)	(1,549)	26,662	25,113
Balance at 31 December 2019	9,611,068	3,694,785	2,207,740	1,121,470	966,122	17,601,185	32,963	17,634,148
Profit of the year	-	-	-	-	864,408	864,408	(5,280)	859,128
Other comprehensive income	-	-	-	(164,337)	-	(164,337)	-	(164,337)
Total comprehensive income	-	-	-	(164,337)	864,408	700,071	(5,280)	694,791
Appropriation of retained earnings (note 32, 34)	489,171	-	326,114	-	(815,285)	-	-	-
Dividends	-	-	-	-	(18,913)	(18,913)	-	(18,913)
Issue of share capital (note 32)	113,284	92,493	-	-	-	205,777	-	205,777
Regain of control on a subsidiary	-	-	-	-	-	-	19,440	19,440
Balance at 31 December 2020	10,213,523	3,787,278	2,533,854	957,133	996,332	18,488,120	47,123	18,535,243

¹The notes 1 to 39 in pages 6 to 80 are an integral part of these consolidated financial statements

Banka Credins sh.a.

Consolidated statement of cash flows
for the year ended 31 December 2020¹

	Notes	Year ended	Year ended
		31 December 2020	31 December 2019
		ALL '000	ALL '000
Cash flows from operating activities			
Profit before income tax		1,086,515	1,216,356
<i>Adjustments for:</i>		-	-
Depreciation and amortization	21,22	481,835	390,795
Disposed fixed assets	21	(12,302)	1,833
Right-of-use assets	23	174,026	(2,971,714)
Net impairment loss on financial assets	6	3,470,836	2,517,839
Other losses from unrecoverable loans	18	6,907	3,452
Share of loss from associate	16	7,166	6,731
Impairment on repossessed properties	19	59,930	62,263
Net interest income	3	(6,632,352)	(6,534,060)
Foreign exchange effect to increase subordinated debt		(8,146)	(207,394)
Cash flows (used in) operating activities before changes in working capital		(1,365,585)	(5,513,899)
Change in loans and advances to banks	12	17,713	53,197
Change in loans and advances to customers	18	(7,673,311)	(11,169,947)
Change in leasing	17	(31,980)	(139,945)
Change in restricted balances with Central bank	11	(1,789,700)	(1,607,682)
Change in repossessed properties	19	329,409	(251,077)
Change in retained properties for investment	20	(2,304,584)	-
Change in other assets	24	(914,425)	(544,466)
Change in due to banks and financial institutions	25	447,634	(67,224)
Change in due to customers	26	24,750,380	21,570,991
Change in lease liability	29	79,680	3,030,853
Change in other liabilities	30,31	232,821	(93,688)
Interest received		8,935,833	8,962,675
Interest paid		(2,033,191)	(2,092,380)
Income tax paid		(114,622)	(313,665)
Net cash from operating activities		18,566,072	11,823,743
Cash flows used in investing activities			
Purchase of investment securities	13,14,15	(27,407,238)	(49,605,174)
Sales of investment securities	13,14,15	3,996,138	18,404,062
Investment securities matured	13,14,15	9,094,026	9,691,747
Investment in subsidiaries and associates	16	-	(32,573)
Quotes in the investment fund		(23,253)	-
Purchase of property and equipment	21	(541,015)	(548,444)
Purchase of intangible assets	22	(118,104)	(273,140)
Net cash used in investing activities		(14,999,446)	(22,363,522)
Cash flows from financing activities			
Proceeds from issued subordinated liabilities	28	559,991	1,357,029
Repayments of subordinated debt	28	(1,263,131)	(703,779)
Repayments of financing	27	(145,476)	83,147
Issue of share capital		186,861	750,259
Net cash from financing activities		(661,755)	1,486,656
Net increase, in cash and cash equivalents		2,904,871	(9,053,123)
Cash and cash equivalents at 1 January		24,169,118	33,222,241
Cash and cash equivalents at 31 December		27,073,989	24,169,118

¹The notes 1 to 39 in pages 6 to 80 are an integral part of these consolidated financial statements

Banka Credins sh.a.

Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

1 General information

Banka Credins sh.a. (hereinafter "the Group") is an Albanian financial institution which was incorporated on 1 January 2003 under the Albanian Commercial Law and was licensed by the Bank of Albania on 31 March 2003 to operate as a bank in all fields of banking activity in Albania in accordance with the law No. 8365, "On banks in the Republic of Albania", dated July 1998. The Group is also subject to law No. 8269, dated December 1997, "On the Bank of Albania" (Bank of Albania hereinafter referred to as "Central Bank").

As at 31 December 2020, the Group was operating through a head office located in Tirana, 50 branches located in Tirana, Durres, Fier, Lezha, Elbasan, Vlora, Shkodra, Korca, Shijak, Shkozë, Kavaja, Lushnja, Fushe Kruje, Kukes, Burrel, Ballsh, Berat, and Peshkopi and 8 agencies in Tirana, Shkoder and Durres. (31 December 2019: 50 branches and 8 agencies).

The Group is composed of the parent entity Credins Bank Sh.a, "CREDINS INVEST sh.a. - Shoqëria administruese e Fondeve të Pensioneve dhe Sipermarrjeve të Investimeve Kolektive", where Credins Bank Sh.a owns 76% of its share capital, "Regjistri Shqiptar i Titujve ALREG" sh.a. where Credins Bank Sh.a owns 52,5% of its share capital and "Bursa Shqiptare e Titujve ALSE" sh.a." where Credins Bank Sh.a owns 45,59% of its share capital and also 100% in Credins Bank Kosovo sh.a (all together referred below as the Group). More details about its capital investments can be found in note 16 Equity investments and goodwill.

As at 31 December 2020 the Group had 1,012 employees (31 December 2019: 934 employees).

The address of Group main registered office and principal place of business is Str. "Vaso Pasha" No.8, Tirana, Albania.

2 Basis of preparation

2.1 Basis of preparation of Financial Statements

The Consolidated Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments, other financial assets and liabilities at FVPL and financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value and repossessed properties which are measured at the lower of cost or net realizable value.

The Group has considered the impact of Covid-19 when preparing these consolidated financial statements. While specific areas of judgment do not change, the impact of Covid-19 resulted in a further judgement on those areas considering the pandemic course and its financial impact.

The Consolidated Financial Statements are presented in ALL, which is the Group's functional currency and all values are rounded to the nearest thousand (ALL '000), except when otherwise indicated.

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

2.1.2 Presentation of Consolidated Financial Statements

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 35.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group. Certain reclassification has been made to prior year in order to comply with current year presentation.

2.1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2020. Control is achieved when the Parent is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Parent controls an investee if, and only if, the Parent has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Parent has less than a majority of the voting or similar rights of an investee, the Parent considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Banka Credins sh.a.

Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.1 Basis of preparation (continued)

2.1.3 Basis of consolidation (continued)

The Parent re-assesses 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. Consolidation of a subsidiary begins when the Parent obtains control over the subsidiary and ceases when the Parent loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent gains control until the date the Parent ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent loses control over a subsidiary, it de-recognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.1.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Parent re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.2 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities (if any). Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.2 Significant accounting judgments, estimates and assumptions (continued)

2.2.1 Impairment losses on financial assets

The Group considers exposure as non-performing/impaired when one or more of following events that have a detrimental impact on the estimated future cash flows have occurred:

- ▶ Days past due of an account greater than 90 days
- ▶ Loan is characterized by bad rating (loans that have rating equal to 7 or economic rating equal to 10)
- ▶ Loan is subject to threshold exposure at GCC level for individual impairment

The mentioned default (impairment) definition is applied on the account (loan) level.

Loans that are not individually tested for impairment are assessed collectively. In the collective impairment are included loans that have an exposure less than ALL 10,000, thousand at GCC level.

The collective impairment is calculated according to stage 2 and stage 1.

Stage 2: For collectively assessed accounts in Stage 2 impairment allowance is equal to lifetime ECL. Lifetime ECL is defined as all possible default loss events over the expected life of a financial instrument (i.e., risk of a default occurring on the financial instrument during its expected life).

Stage 1: For collectively assessed accounts in Stage 1, 12 month Expected Credit Loss (ECL) is calculated. 12-month ECLs is a loss that is expected to materialize in the following 12 months – therefore 12 months probability is multiplied by current EAD and corresponding LGD. In the case remaining maturity is shorter than 12 months, instead of 12 months PD, the remaining lifetime PD is considered.

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

2.2.2 Going concern

During the beginning of 2020, the pandemic of COVID-19 was spread globally. The consequences of the COVID-19 outbreak have adversely affected the supply and demand for the Group's primary services and therefore, its operating results have been negatively impacted. In March 2020, the government of Albania took drastic measures by suspending all activities that were not vital. Although, the Groups' activities were not suspended, the pandemic resulted in delays in repayments by some of the Group's customers. The government has announced a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Furthermore, the 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 for a 3 months period.

The activity of the Group has continued without suspension during 2020, and there has been a relatively stable performance on the customers' collection.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.2 Significant accounting judgments, estimates and assumptions (continued)

2.2.2 Going concern (continued)

The Group considers in its internal capital adequacy assessment the stress scenario in calculating the capital demand for market risk related to its portfolio of investments, majority of which is measured at fair value to other comprehensive income and it has a direct impact on capital. Unrealized losses can be converted into realized losses, in the case of part or all of the portfolio, will be classified in the tradable portfolio or sold potentially in the market. The fluctuation on the fair values is expected to have lower impact on the results of the bank due to the small size of the Group's portfolio measured at fair value through profit or loss.

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.

The Group performs regularly, 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.

Dynamic tests are performed to evaluate the effect that a similar increase/decrease in customer's shock would have on each of the balance sheet, liability and profit and loss line items, for a specific period of time.

During 2020, the Group has managed to achieve the budgeted results. For the year ending 2021, the Group expects to have a negative deviation to its budgeted figures due to the Pandemic situation, which is not possible to be reliably measured at the moment, however the Management strongly believes it to be standing at positive results.

The Group's management has made an assessment of 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. For additional disclosures on capital management refer to note 38.6.

2.2.3 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 2.4.3.

2.2.4 Effective Interest Rate (EIR) method

The Group's EIR method, as explained in Note 2.4.7.1, recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioral life of loans and deposits and recognizes the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behavior and life-cycle of the instruments.

2.2.5 Deferred active income tax

Deferred income tax is recognized for the fiscal losses to the extent that is likely to have taxable profits in the future where fiscal losses can be absorbed. Despite the fact that in Albania fiscal losses can be used for three years from the date of occurrence, judgement is required to determine the value of the deferred active income tax that it can be recognized based on the probability and level of future taxable profits, together with future fiscal planning strategies.

2.2.6 Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.2 Significant accounting judgments, estimates and assumptions (continued)

2.2.6 Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee) (continued)

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset) or any other event that prevents the Group to use the premises.

2.2.7 Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as to reflect the terms and conditions of the lease).

2.2.8 Impairment of investment securities

The Group reviews its debt securities classified as FVOCI investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The treatment of financial instruments (government bonds and exposures with/to banks) is different from the general approach with respect to determining parameters. While the LGD is simply set to 45% (according to the CRR regulation), PD is inferred from the specific country of entity S&P rating.

As there was no significant deterioration in credit risk for the outstanding financial instruments in the portfolio, only the cumulative PDs up to 12th month is calculated.

2.3 Changes in accounting policies and disclosures

2.3.1 New and amended standards and interpretations

Some standards and amendments that are effective for annual periods beginning on or after 1 January 2020 have been applied by the Group but have had no effect on the Group's financial performance or financial position. Standards and amendments that are effective for the first time in 2020 (for a company with a financial year ending December 31, 2020) and that may be applicable to the Group:

- Defining a Business (IFRS 3 Amendments)
- Determination of Materiality (Amendments to IAS 1 and IAS 8)
- Representative Interest Rate Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Conceptual Framework References Amendments (Different Standards)
- Lease and COVID-19 Concessions (IFRS 16 Amendments)

These amendments do not have any significant impact on these Consolidated Financial Statements and therefore disclosures are provided.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

2.3.2 Standards and interpretations in issue not yet effective

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

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17: Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References in the Conceptual Framework
- Receipts before intended use (Amendments to IAS 16)
- Multiple Contracts - Costs of Completing a Contract (Amendments to IAS 37)
- Improvements to IFRS standards Cycle 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of liabilities as Long-term or Short-term (Amendments to IAS 1)

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements and therefore the disclosures have not been made.

2.4 Summary of significant accounting policies

2.4.1 Foreign currency transactions

In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency are recognized at the spot rates of exchange prevailing at the dates of the 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The applicable rate of exchange (ALL to foreign currency unit) for the principal currencies as at 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020	31 December 2019
USD	100.84	108.64
EUR	123.70	121.77
GBP	137.93	143.00
CHF	114.46	112.30
CAD	79.14	83.38
XAU	6,133.01	5,318.79

2.4.2 Financial instruments – initial recognition and subsequent measurement

2.4.2.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

2.4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.4.4.1.1 and 2.4.4.1.2. Financial instruments are initially measured at their fair value (as defined in Note 2.4.3), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below:

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is de-recognized.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.2.3 Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 2.4.4.1
- FVOCI, as explained in Notes 2.4.4.4 and 2.4.4.5
- FVTPL, as set out Note 2.4.4.6.

The Group classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 2.4.4.2 and 2.4.4.3. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.4.4.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.4.4.6.

2.4.2.4 De-recognition of financial assets

2.4.2.4.1 De-recognition due to substantial modification of terms and conditions

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to de-recognize a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in de-recognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

2.4.2.4.2 De-recognition other than for substantial modification

2.4.2.4.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when the rights to receive cash flows from the financial asset have expired. The Group also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition. The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.2.4 De-recognition of financial assets (continued)

2.4.2.4.2 De-recognition other than for substantial modification (continued)

2.4.2.4.2.1 Financial assets(continued)

A transfer only qualifies for de-recognition if either:

- The Group has transferred substantially all the risks and rewards of the asset

Or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4.2.4.2.2 Financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.4.3 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below.

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Group's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Group applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Group estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. Details of this are further explained in Note 38.7 (Fair value measurement). The Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments, when necessary, based on the facts at the end of the reporting period.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Financial assets and liabilities

2.4.4.1 Due from banks, Loans and advances to customers, financial investments at amortized cost

The Group measures *Due from banks, Loans and advances to customers* and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2.4.4.1.1 Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.4.4.1.2. The SPPI test

As a second step of its classification process the Group assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.4.4.2 Derivatives recorded at fair value through profit or loss

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a consolidated financial instrument. Financial assets are classified based on the business model and SPPI assessments as outlined in Note 2.4.4.1.1 and 2.4.4.1.2.

2.4.4.3 Financial assets or financial liabilities at FVPL

The Group classifies financial assets or financial liabilities at FVPL when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. FVPL assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

2.4.4.4 Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.4 Financial assets and liabilities (continued)

2.4.4.4 Debt instruments at FVOCI (continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 2.4.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.4.6.3 Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

2.4.4.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

The Group has issued financial instruments with equity conversion rights. When establishing the accounting treatment for these non-derivative instruments, the Group first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. Once the Group has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for (as outlined in Note 2.4.4.2). Disclosures for the Group's issued debt are set out in Note 27 and Note 28.

2.4.4.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis,
Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy,
Or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate.

2.4.4.7 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and an ECL allowance. The premium received (if any) is recognized in the income statement in *Net fees and commission income* on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 36.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Impairment of financial assets (continued)

2.4.5 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

2.4.6 Impairment of financial assets

2.4.6.1 Overview of the ECL principles

The Group records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 38.2.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 38.2. The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 38.2

Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECLs.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.4.6.2 The calculation of ECL

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognized and is still in the portfolio.

- EAD - The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, collateral coverage and accrued interest from missed payments.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Impairment of financial assets (continued)

2.4.6.2 The calculation of ECL (continued)

- LGD - The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, as set out in Note 2.4. It is usually expressed as a percentage of the EAD. Expert LGD values are used estimated as 1 less the cash recovery rates. The recovery rates are estimated based on the internal available data of the bank historic recoveries within the last five years. The LGD values are based on cash recoveries without discriminating whether the exposure is secured or not secured. For the loan to customer portfolio the LGD values vary from 45% to 70%. LGD values for all other portfolio such as loans to Financial Institutions, Sovereigns and investment securities is set at 45%.

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 36.

The mechanics of the ECL method are summarized below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired, the Group recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Group only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

2.4.6.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

2.4.6.4 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Group only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

2.4.6.5 Forward looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

GDP growth

- Unemployment rates

- Central Bank base rates

- House price indices

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 38.2.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.6 Impairment of financial assets (continued)

2.4.6.6 Offsetting financial instruments

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize 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 Group's trading activity.

2.4.7 Recognition of interest income and expenses

2.4.7.1 The effective interest rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

2.4.7.1 Recognition of interest income and expenses

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

2.4.7.2 Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information. In its Interest income/expense calculated using the effective interest method.

In its Interest income/expense calculated using the effective interest method, the Group only includes interest on those financial instruments that are set out in Note 2.4.7.1 above.

Other interest income/expense includes interest on all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognized as a part of the fair value change in Net trading income. The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3', the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures (and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

The Group also holds investments in financial assets issued in countries with negative interest rates. The Group discloses interest received on these financial assets as interest expense. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.8 Fee and commission income and expense

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.

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

2.4.9 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This is included in interest income line as Net trading income.

2.4.10 Net loss on financial assets and liabilities designated at fair value through profit or loss

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and from 1 January 2018, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

2.4.11 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank 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 Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.4.12 Investments securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either Debt securities at amortized cost, debt securities through other comprehensive income or debt securities at fair value through profit or loss (mandatory).

2.4.13 Property Plant and equipment and right-of-use assets

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as consolidated items (major components) of property and equipment.

(ii) Subsequent Cost

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

(iii) Depreciation

Depreciation is recognized in profit or loss on a declining balance method over the estimated useful life of the assets, except for depreciation of property which is based on the straight line method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Right-of-use assets are depreciated on a straight-line basis over the lease term. The depreciation rates for the current and comparative periods are as follows:

Fixed Assets Category	Depreciation %
Buildings	5%
Electronic equipment	25%
Vehicles	20%
Furniture's, fittings and office equipment	20%
Leasehold improvements	5%

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.14 Intangible assets

(i) Software

Software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is recognized in profit or loss at 25% based on the reducing balance method from the date that it is available for use.

(ii) Licenses

Licenses and rights to use that are acquired by Group are stated at cost less accumulated amortization and impairment losses, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the license, from the date that it is available for use.

2.4.15 Impairment of non – financial assets

The carrying amounts of the Group'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 recognized 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 recognized in profit or loss.

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.

2.4.16 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.4.17 Pension benefits

(i) Compulsory social security contributions

The Group makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The social insurance authorities are responsible for providing the legally set minimum threshold for pensions under a defined contribution pension plan. The Group's contributions to the benefit pension plan are charged to the profit or loss as incurred

(ii) Paid annual leave

The Group recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

(iii) Employee health insurance

The Group also operates a defined contribution employee health insurance plan. The contribution is payable to an insurance company in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

(iv) Voluntary pension contribution for employees

The Group has created a Professional Pension Plan for its employees. The Group commits to pay the contributions for each employee that signed the individual "Professional Pension Plan" contract. The annual expense represents the annual charge contributed by the Group, and is recorded under "Personnel Expenses" accounts, affecting the profit and loss of the Group, with no other future liabilities for the Group.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.18 Provisions for contingent liabilities and commitments

A provision is recognized if, as a result of a past event, the Group 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 recognized when the Group 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 recognized when the expected benefits to be derived by the Group 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 Group recognizes any impairment loss on the assets associated with that contract.

2.4.19 Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Corporate 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 in accordance with the Albanian tax legislation. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenses.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws in Albania that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

2.4.20 Repossessed properties

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations of the Group are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

The Group holds some repossessed properties that it has acquired through enforcement of collateral over loans and advances. The Group measures these repossessed assets initially at their cost (purchase price). At the end of each reporting period, these assets are measured at the lowest of their cost or net realizable value. Gains and losses arising from changes in the net realizable value of these repossessed properties are included in profit or loss in the period in which they arise. These assets are derecognized upon disposal or when these are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the properties (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.21 Investment properties

Investment properties includes immovable property which is held for rent or equity valuation, or both, and is accounted for using the fair value model. Property held for investment is revalued annually and gains or losses on revaluation are recognized in the income statement. These are included in the summary statement of financial position with their fair values. Note 20 shows how the fair value of properties held for investment by the Sea Land Investment alternative investment fund is determined.

2.4.22 Deposits and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's chief sources of debt funding. When the Group sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Group's consolidated financial statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2.4.23 Dividends

Dividends on ordinary shares are recognized as a liability and are deducted from equity at the time they are approved by the Group's shareholders. For the year ended 31 December 2020, the Group has declared dividends in the amount of ALL 489,171 thousand to be paid to its shareholders, of which ALL 18,913 thousand were distributed to shareholders during 2020, who then invested these values as capital of new in Group.

2.4.24 Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include: 'General reserve' reserve which comprises changes made for legal and statutory reserve as determined in the Central Bank Law and Commercial Companies Law applicable in Albania.

'Revaluation reserve' which is used to record exchange differences arising from the revaluation of investment securities.

2.4.25 Write-offs

Financial assets are written off either partially or in their entirety only when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.4.26 Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

2.4.27 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.4.27.1 Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses,

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

2. Accounting Policies (continued)

2.4 Summary of significant accounting policies (continued)

2.4.27 Leases (continued)

2.4.27.1 Group as a lessee (continued)

and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Note 22 Right-of-use assets and are subject to impairment in line with the Group's policy as described in Note 2.4.15 Impairment of non-financial assets.

Lease liabilities at the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

2.4.27.2 Group as a lessor

Leases where the Group transfers substantially all the risk and benefits of ownership of the asset are classified as finance leases. In the statement of financial position, the Group presents the receivable amount equal to the net investment value. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

3 Net Interest income

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income		
Loans and advances to customers	7,440,064	7,559,663
Net trading income	79,675	117,535
Investment securities	1,367,283	991,495
Cash and cash equivalents	49,073	143,525
Loans and advances to banks	5,470	18,424
Restricted cash with Central Bank	31,608	42,409
Total interest income	8,973,173	8,873,051
Interest expense		
Deposits from banks	(116,764)	(117,592)
Deposits from customers	(1,690,913)	(1,654,820)
Subordinated liabilities	(385,736)	(416,360)
Interest expense on lease liabilities	(141,105)	(145,944)
Reverse Repo	(6,303)	(4,275)
Total interest expense	(2,340,821)	(2,338,991)
Net interest income	6,632,352	6,534,060

4 Net Fee and commission income and expense

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income		
Grouping customer fees	1,115,163	1,125,778
Fee and commissions from lending services	54,537	6,117
Total fee and commission income	1,169,700	1,131,895
Fee and commission expense		
Inter bank transaction fees	(58,847)	(81,240)
Treasury operations	(73,439)	(65,250)
Other	(30,273)	(38,925)
Total fee and commission expense	(162,559)	(185,415)
Net fee and commission income	1,007,141	946,480

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

5 Net other income/(expense)

	Year ended 31 December 2020	Year ended 31 December 2019
Other income		
Reversals from written off loans	199,385	18,714
Other income	1,194,661	158,658
Total other income	1,394,046	177,372
Other expenses		
Other expenses related to the Grouping activity		
Total other expenses	(189,449)	(175,026)
Net other income/(expenses)	(189,449)	(175,026)

Other expenses related to banking activity for the year ended as at 31 December 2020 include expenses for impairment on repossessed properties, which for the year ended on 31 December 2020 amounts to ALL 59,930 thousand (31 December 2019: ALL 62,265 thousand) (note 20).

6 Net impairment loss on financial assets

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Charges of ECL on cash and cash equivalents	10	22,179	6,044
Charges of ECL on restricted balances with Central Bank	11	11,386	18,437
Charges of ECL on loans and advances to banks	12	19	75
Charges of ECL on investment securities	14; 15	53,151	(49,807)
Charges of ECL on loans and advances to customer and leasing	17; 18	3,407,185	2,601,628
Impairment charges on other financial assets (debtors)	24	(29,245)	(6,570)
Charges of ECL on guaranties and letter of credits	36	6,161	(51,968)
		3,470,836	2,517,839

7 Personnel expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries	1,154,927	1,058,068
Bonuses and rewards	146,581	140,832
Social insurance	156,294	145,132
Life insurance premium	32,471	30,085
Other	157,488	129,008
	1,647,761	1,503,125

8 Administrative expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Insurance and surveillance	746,275	645,243
Third parties fees	557,409	515,955
Rent	11,369	11,143
Marketing and subscriptions	471,458	438,043
Maintenance	274,255	218,338
Utilities	122,195	113,746
Supplies	65,751	69,594
Other	43,360	30,857
Local and other taxes	28,943	28,407
Transport and travel	43,485	42,416
	2,364,500	2,113,742

Insurance and surveillance, third parties' fees and maintenance expenses have increased and this is mainly due to increase in the activities of the Bank. Marketing expenses have increased due to volatility related to these types of expenses. There have also been increases in the number of Visa Cards and Master Cards issued and as well the increase in the number of transactions processed via ATM & POS.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

9 Income tax expense, net

	Year ended 31 December 2020	Year ended 31 December 2019
Current tax expense	224,106	223,261
Income tax expense from subsidiary's profit	3,281	358
Income tax expense	227,387	223,619

The impairment allowances charged by the Group in accordance with IFRS are considered as tax deductible expenses, provided that they are certified by the external auditors. In accordance with Albanian tax regulations, the applicable income tax rate for the year ended 31 December 2020 is 15% (31 December 2019: 15%). The reconciliation of effective income tax rate is summarized as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Profit before tax in income statement	1,086,515	1,216,356
Prima facie tax calculated at 15%	162,977	182,453
Adjustment for unrecognized loss of associate	1,075	1,010
Adjustment for non-taxable profit/(loss) of subsidiary	5,919	393
Non tax deductible expenses	54,135	39,405
Income tax expense	224,106	223,261

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time as the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Albanian tax laws and regulations are subject to interpretations by the tax authorities. Un-deductible expenses comprise losses from unrecoverable loans, losses from decreases in the value of repossessed properties, provisions created, depreciation charge for leasehold improvements that is not recognized as deductible for fiscal purposes, and other expenses not recognized as tax deductible based on current tax legislation. The Group is audited by tax authorities up to year 2015.

10 Cash and cash equivalents

	31 December 2020	31 December 2019
Current accounts with banks	3,042,831	2,920,510
ECL impairment for CA balances with banks	(1,607)	(2,125)
Money market placements	2,413,526	9,927,744
ECL impairment for placements with banks	(873)	(6,414)
Cash on hand	4,482,136	4,479,645
Unrestricted balances with central bank	17,910,994	7,266,933
ECL impairment for balances with central bank	(43,281)	(15,043)
In transit	(729,737)	(402,132)
	27,073,989	24,169,118

An analysis of changes in the corresponding ECL allowances is provided below:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	23,582	-	-	23,582
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	22,179	-	-	22,179
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	45,761	-	-	45,761

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

10 Cash and cash equivalents (continued)

10.1 Impairment allowance for cash and cash equivalents (continued)

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	17,537	-	-	17,537
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	6,045	-	-	6,045
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	23,582	-	-	23,582

Money market placements include placements with resident and non-resident banks, bearing short-term maturity, up to 3 months. Cash in transit represents transactions as agents for payments made by customers in behalf of fiscal authorities, initiated within 31 December 2020 and settled with the current account at the Central Bank within the first days in January 2021. Details on impairment allowance on balances with Central Bank is provided in note 11.1.

11 Restricted balances with Central Bank

In accordance with the Central Bank's requirement relating to the deposit reserve, the Group should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. Based on Bank of Albania Supervisory Council decision no. 29 dated 16.05.2012 the Group may use the required reserve denominated in ALL, if the average end-of-day balance on its 2018 reserve accounts over the maintenance period is not less than the amount defined for the required reserve. The statutory reserve has a monthly basis maturity and the interest rate applied to the ALL-denominated reserve is 70% of the one-week REPO rate (base rate) in Albania, which as at 31 December 2020 was 0.50% (31 December 2019: 1.00%). The reserve denominated in EUR bears an interest that is equal to the deposit rate as announced by the European Central Bank which as at 31 December 2020 was -0.5% (31 December 2019: -0.5%). The reserve denominated in USD does not bear interest. As at 31 December 2020, the balance of the restricted cash is ALL 15,584,307 thousand (31 December 2019: ALL 13,821,709 thousand).

11.1 Impairment allowance for restricted cash with Central Bank

	31 December 2020	31 December 2019
Restricted balances with Central Bank	15,652,021	13,850,334
<i>ECL impairment</i>	<i>(40,502)</i>	<i>(28,625)</i>
Balances with Central Bank, net	15,611,519	13,821,709

An analysis of changes in the corresponding ECL allowances is provided below:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	28,625	-	-	28,625
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	11,877	-	-	11,877
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	40,502	-	-	40,502

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

11 Restricted balances with Central Bank

11 Restricted balances with Central Bank (continued)

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	10,189	-	-	10,189
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	18,436	-	-	18,436
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	28,625	-	-	28,625

12 Loans and advances to banks

	31 December 2020	31 December 2019
Non- Resident banks and financial institutions	105,014	138,680
<i>In foreign currency</i>	105,014	138,680
Resident banks and financial institutions	66,792	51,060
<i>In ALL</i>	29,640	3,355
<i>In foreign currency</i>	37,152	47,705
Total balances for loans and advances to banks, gross	171,806	189,740
<i>ECL impairment</i>	<i>(201)</i>	<i>(182)</i>
Loans and advances to banks, net	171,605	189,558

12.1 Impairment allowance for loans and advances to banks

An analysis of changes in gross carrying amount and the corresponding ECL allowances is provided below:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Low- fair risk	171,806	-	-	171,806
Less: allowance	<i>(201)</i>	-	-	<i>(201)</i>
Carrying amount	171,605	-	-	171,605

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Low- fair risk	189,740	-	-	189,740
Less: allowance	<i>(182)</i>	-	-	<i>(182)</i>
Carrying amount	189,558	-	-	189,558

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

12 Loans and advances to banks (continued)

12.1 Impairment allowance for loans and advances to banks (continued)

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	182	-	-	182
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	19	-	-	19
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	201	-	-	201

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	106	-	-	106
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	76	-	-	76
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	182	-	-	182

13 Financial assets measured at FVPL

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

	31 dhjetor 2020	31 dhjetor 2019
Treasury Bills	415,164	-
Government bonds	-	713,228
Total	415,164	713,228

Government bonds

As at 31 December 2020, the Group had a portfolio of 3-years, 5-years and 10-years government bonds, denominated in the local currency (ALL). Interest is received semi-annually at a respective coupon rate of 2.3% (3 years), from 4.2% to 5.30% (5-years) and from 5.53% to 6.80% (10-years). (December 31, 2019: 3-year, 5-year and 10-year government bonds, denominated in local currency (LEK). % (3-year) and 5.53% to 6.8% (10-year).

Details of government bonds as at 31 December 2020 and 31 December 2019, showing their initial maturity, their book value and respective fair value as at the reporting date, by type, are presented as follows:

	31 December 2020						
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
36 months	191,000	-	-	3,788	-	904	195,692
60 months	195,446	-	-	3,553	-	797	199,796
120 months	19,160	-	-	416	-	100	19,676
	405,606	-	-	7,757	-	1,801	415,164

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

13 Financial assets measured at FVPL (continued)

	31 December 2019						
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
36 muaj	150,000	1,249	-	1,179	-	(783)	151,644
60 muaj	282,300	4,941	-	5,583	-	15,977	308,801
120 muaj	222,300	18,871	-	6,536	-	5,075	252,783
	654,600	25,061	-	13,298	-	20,269	713,228

14 Debt instruments at fair value through other comprehensive income

Debt instruments measured at FVOCI as at 31 December 2020 and as at 31 December 2019 are as follows:

	31 December 2020	31 December 2019
Treasury Bills	8,820,174	7,823,550
Government bonds	50,823,505	42,008,820
Total investment securities at FVOCI	59,643,679	49,832,370
ECL impairment	(116,471)	(78,069)
Total, net of impairment	59,527,208	49,754,301

Treasury bills

The effective interest rates on treasury bills for the year ended 31 December 2020 fluctuated between 1.2% and 2.45% (31 December 2019: 1.26% and 3.11% p.a.). Details of treasury bills as at 31 December 2020 and 31 December 2019, showing their initial maturity, their book value and respective fair value as at the reporting date, by type are presented as follows:

	31 December 2020					
	Nominal value	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
12 months	8,893,330	(155,316)	65,105	8,803,119	17,055	8,820,174
	8,893,330	(155,316)	65,105	8,803,119	17,055	8,820,174

	31 December 2019					
	Nominal value	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
12 months	7,882,060	(132,379)	54,156	7,803,837	19,714	7,823,550
	7,882,060	(132,379)	54,156	7,803,837	19,714	7,823,550

Government bonds

As at 31 December 2020, the Group had a portfolio of 2-years, 3-years, 5-years, 7-years and 10-years government bonds, denominated in the local currency (ALL). Interest is received semi-annually at a respective coupon rate of 1.92% to 3.35 % (2-years), 2.30% to 2.70 % (3-years), 0.95% (4 years) 3.64% to 6.65% (5-years), 1.88% to 9.52% (7-years) and 2.38% to 4.125% (10-years), (31 December 2018: 0.75% to 3.35 % (2-years), 2.70% to 5.00 % (3-years), 4.14% to 6.45% (5-years), 4.89% to 10.85% (7-years) and 0.25% to 9.25% (10-years)). Details of government bonds as at 31 December 2019 and 31 December 2018, showing their initial maturity, their book value and respective fair value as at the reporting date, by type, are presented as follows:

	31 December 2020						
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
24 months	6,766,402	627	(5,424)	48,664	6,810,269	11,388	6,167,661
66 months	3,349,400	8,362	(4,829)	29,693	3,382,626	5,311	3,392,002
60 months	6,994,600	192,586	(12,826)	110,782	7,285,142	94,614	7,371,162
84 months	10,224,848	167,507	(7,313)	105,137	10,490,179	408,298	10,848,869
120 months	20,482,608	1,092,447	(133,095)	304,346	21,746,306	816,801	23,043,811
	47,817,859	1,461,528	(163,487)	598,622	49,714,522	1,336,412	50,823,505

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14 Debt instruments at fair value through other comprehensive income (continued)

	31 December 2019						
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost	Revaluation difference	Fair value
24 months	2,240,000	1,344	(4,397)	20,011	2,256,958	11,388	2,268,346
36 months	703,500	117	(3,157)	5,376	705,836	5,311	711,147
48 months	608,850	14,088	-	1,921	624,860	(2,566)	622,293
60 months	5,065,700	223,044	-	94,545	5,383,289	94,614	5,477,902
64 months	10,908,461	388,104	(4,391)	99,575	11,391,750	408,298	11,800,048
84 months	974,160	277,121	-	28,666	1,279,947	(34,182)	1,245,766
120 months	18,059,146	924,093	(150,673)	233,951	19,066,517	816,801	19,883,318
	38,559,817	1,827,912	(162,618)	484,045	40,709,157	1,299,664	42,008,820

14.1 Impairment allowance for debt instruments at fair value through other comprehensive income

The table below shows the fair value of the Group's debt instruments measured at FVOCI by credit risk, based on the Group's internal credit rating system and year-end stage classification:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
AAA	50,999,604	-	-	50,999,604
AA+ to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	1,267,490	-	-	1,267,490
Lower than BBB-	7,376,585	-	-	7,376,585
Unrated	-	-	-	-
Exposure before impairment	59,643,679	-	-	59,643,679
Loss allowance	(116,471)	-	-	(116,471)
Carrying amount	59,527,208	-	-	59,527,208

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
AAA	41,131,673	-	-	41,131,673
AA+ to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	3,743,002	-	-	3,743,002
Lower than BBB-	4,957,695	-	-	4,957,695
Unrated	-	-	-	-
Exposure before impairment	49,832,370	-	-	49,832,370
Loss allowance	(78,069)	-	-	(78,069)
Carrying amount	49,754,301	-	-	49,754,301

An analysis of changes in the fair value of debt instruments measured at FVOCI, is as follows:

Changes in Fair Value	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	49,754,301	-	-	49,754,301
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	26,481,074	-	-	26,481,074
De-recognition of financial assets	(16,514,829)	-	-	(16,514,829)
Change in fair value	(193,338)	-	-	(193,338)
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	59,527,208	-	-	59,527,208

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14 Debt instruments at fair value through other comprehensive income (continued)

14.1 Impairment allowance for debt instruments at fair value through other comprehensive income (continued)

Changes in Fair Value	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	43,926,903	-	-	43,926,903
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	33,136,711	-	-	33,136,711
De-recognition of financial assets	(27,723,062)	-	-	(27,723,062)
Change in fair value	413,749	-	-	413,749
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	49,754,301	-	-	49,754,301

An analysis of changes in the corresponding ECLs of debt instruments measured at FVOCI, is as follows:

ECL	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	78,069	-	-	78,069
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	42,614	-	-	42,614
De-recognition of financial assets	(4,212)	-	-	(4,212)
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	116,471	-	-	116,471

ECL	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	130,333	-	-	130,333
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	43,877	-	-	43,877
De-recognition of financial assets	(96,141)	-	-	(96,141)
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	78,069	-	-	78,069

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15 Debt instruments at amortized cost

Debt instruments measured at amortized cost as at 31 December 2020 and as at 31 December 2019 are as follows:

	31 December 2020	31 December 2019
Government bonds	21,437,916	16,591,294
Total investment securities FVPL	21,437,916	16,591,294
ECL impairment	(17,206)	(2,457)
Total, net of impairment	21,420,710	16,588,837

Government bonds

As at 31 December 2020, the Group had a portfolio of 2-year, 3-year, 5-year, 7-year and 10-year government bonds denominated in local currency (LEK). Interest is obtained semi-annually with a corresponding coupon rate of 0.95% (3-year), 0.00% (5-year), 6.5% (6-year), 0.85% to 1.6% (6-year) 0.25% to 3.00% (10-year), (December 31, 2019: 2-year, 3-year, 5-year, 7-year and 10-year, denominated in local currency (LEK). 0.95% (3-year), 0.00% (5-year), 6.5% (6-year), 0.85% to 1.6% (6-year) 0.25% to 3.00% (10-year)). Details of government bonds as at 31 December 2020, showing their initial maturity, their book value and their respective fair value at the reporting date, by type, are presented as follows:

31 December 2020					
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost
48 months	371,100	5,667	-	1,169	377,936
60 months	3,401,750	64,629	-	-	3,466,379
65 months	3,401,750	53,360	-	-	3,455,110
84 months	5,767,265	275,168	(2,697)	60,225	6,099,961
105 months	618,500	93,244	-	3,904	715,648
120 months	6,937,200	378,266	(81)	7,497	7,322,882
	20,497,565	870,334	(2,778)	72,795	21,437,916

31 dhjetor 2019					
	Nominal value	Premium to be amortized	Deferred discount	Accrued interest	Amortized cost
36 months	365,310	8,163	-	1,153	374,626
60 months	3,348,675	86,539	-	-	3,435,214
65 months	3,348,675	68,820	-	-	3,417,495
78 months	852,390	51,419	-	7,031	910,841
84 months	487,080	5,825	(3,096)	549	490,358
105 months	608,850	103,681	-	3,834	716,365
120 months	6,819,120	420,123	-	7,152	7,246,395
	15,830,100	744,570	(3,096)	19,719	16,591,294

The table below shows the fair value of the Group's debt instruments measured at amortized cost by credit risk, based on the Group's internal credit rating system and year-end stage classification:

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
AAA	18,785,811	-	-	18,785,811
AA+ to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	1,085,511	-	-	1,085,511
Lower than BBB-	1,566,594	-	-	1,566,594
Unrated	-	-	-	-
Exposure before impairment	21,437,916	-	-	21,437,916
Loss allowance	(17,206)	-	-	(17,206)
Carrying amount	21,420,710	-	-	21,420,710

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15 Debt instruments at amortized cost (continued)

	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Internal rating grade				
AAA	13,956,871	-	-	13,956,871
AA+ to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	1,007,217	-	-	1,007,217
Lower than BBB-	1,627,206	-	-	1,627,206
Unrated	-	-	-	-
Exposure before impairment	16,591,294	-	-	16,591,294
Loss allowance	(2,457)	-	-	(2,457)
Carrying amount	16,588,837	-	-	16,588,837

An analysis of changes in the corresponding ECLs of investment securities, is as follows:

ECL	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	2,457	-	-	2,457
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	14,749	-	-	14,749
De-recognition of financial assets	-	-	-	-
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	17,206	-	-	17,206

An analysis of changes in the corresponding ECLs of investment securities, is as follows:

ECL	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	-	-	-	-
Transfer to Stage 1 (from 2 or 3)	-	-	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	2,457	-	-	2,457
De-recognition of financial assets	-	-	-	-
Change in fair value	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	2,457	-	-	2,457

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16 Investments in associates, equity investments and goodwill

The Group's Shareholders have agreed that the Group would acquire 76% of the shares of "CREDINS INVEST-sh.a-Shoqeri administruese e Fondeve te Pensionit dhe Sipermarreve te Investimeve Kolektive" former "Shoqeria Administruese e Fondit te Pensionit "SiCRED" sh.a." from "SiCRED sh.a.", through a share purchase agreement signed on 22 December 2014 for an amount of ALL 60,206 thousand. The goodwill that resulted from this purchase amounted to ALL 43,371 thousand. During the years other injections of capital have taken place. During the year ended 31 December 2019 and 31 December 2018 no additional capital is injected by the Bank.

As at 31 December 2020 Credins Invest added a profit of ALL 13,482 thousand (31 December 2019: ALL 8,862 thousand) to profit before tax from continuing operations of the Group. The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. There is no impairment of the goodwill for the year ended 31 December 2020 and 31 December 2019.

During 2016 the Group's Shareholders decided that the Group would acquire 95% of the shares of "Regjistri Shqiptar i Titujve ALREG" SHA" for an amount of ALL 3,325 thousand. This has been registered with the National Registration Center on 16 March 2016. The activity of ALREG consists in managing a registry of titles, in accordance with license received from the Board of Albanian Financial Supervisory Authority. On April 20, 2018, the Group reduced its share capital in ALREG sh.a. to 47.5%. Since that date this company is counted as an associate. The additional capital was injected during 2018 in the amount of ALL 14,875 thousand. ALREG's activity consists in the management of the securities register, in accordance with the license obtained from the Supervisory Board of Financing of Albania. During the year ended 31 December 2019 with the purchasing of another 5% of the shares of ALREG the Bank's shareholding of ALREG sh.a on 21 October 2019 amounts to 52,5% date in which the Bank regained control of the Company (from a shareholding of 47.5% in 2018). Negative goodwill resulted from the purchase of the additional shares amounting to ALL 3,400 thousand. "ALREG" SHA" for the year ended 31 December 2020 added a loss of ALL 10,543 thousand (31 December 2019: ALL 7,686 thousand) to profit before tax from continuing operations of the Group.

During 2017 the Group's Shareholders decided that the Group would acquire 42.5% of the shares of "ALSE" SHA" for an amount of ALL 21,250 thousand and accounted as an associate. There was no goodwill resulted from this purchase. This has been registered with the National Registration Center on 28 July 2017. The share of loss in the associate for the year ended 31 December 2019 added a loss of ALL 6,731 thousand (31 December 2019: ALL 6,731 thousand) to profit before tax from continuing operations of the Group.

During 2018, the Bank purchased shares of SWIFT SCRL for a value of 46,650 euros, which constitute 10 shares of the capital of SWIFT SCRL.

The Bank's shareholders have accepted that the Bank will invest 100.0% of the shares of "Banka Credins Kosova" sh.a. "for an amount of EUR 8 million. There was no good name from this transaction. from the ongoing operations of the Group.

	31 December 2020	31 December 2019
Net investment in ALSE	13,378	20,544
Cost of investment in Swift SCR	5,771	5,681
Total	19,149	26,225

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17 Leasing

	31 December 2020	31 December 2019
Gross investment in finance leases, receivable		
- Not later than 1 year	93,892	86,262
- Later than 1 year and not later than 5 years	1,235,212	1,142,779
- More than 5 years	63,120	59,382
	1,392,224	1,288,423
Less: Unearned finance income	(19,544)	(19,438)
Net investment in finance leases	1,372,680	1,268,985
Less allowances for impairment	(86,194)	(14,479)
Total	1,286,486	1,254,506

Movement in the impairment for losses on lease contracts is detailed as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Balance at the beginning of the year	14,478	91,982
Allowance for loss impairment	92,170	15,597
Recoveries	(20,683)	(92,731)
Effect of foreign currency movements	229	(369)
Balance at the end of the year	86,194	14,479
	31 December 2020	31 December 2019
Collective impairment	86,194	14,479
	86,194	14,479

17.1 Impairment allowance for leasing

ECL	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	77	(70)	14,472	14,479
Transfer to Stage 1 (from 2 or 3)	7,540	35	(684)	6,891
Transfer to Stage 2 (from 1 or 3)	10,547	119	-	10,666
Transfer to Stage 3 (from 1 or 2)	28,192	15,668	(1,406)	42,454
Net re-measurement of loss allowance	(29,573)	(2,267)	43,544	11,704
New financial assets originated or purchased	-	-	-	-
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	16,783	13,485	55,926	86,194

ECL	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	-	85,822	6,160	91,982
Transfer to Stage 1 (from 2 or 3)	77	(77)	-	-
Transfer to Stage 2 (from 1 or 3)	-	-	-	-
Transfer to Stage 3 (from 1 or 2)	-	-	-	-
Net re-measurement of loss allowance	-	(85,815)	8,312	(77,504)
New financial assets originated or purchased	-	-	-	-
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	77	(70)	14,472	14,478

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17 Leasing (continued)

17.1 Impairment allowance for leasing (continued)

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances as follows:

	31 December 2020									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due
Gross carrying amount										
Leasing	789,412	336,249	-	152,250	1,628	93,141	-	-	-	1,372,680
Total	789,412	336,249	-	152,250	1,628	93,141	-	-	-	1,372,680
ECL allowance										
Leasing	11,599	5,185	-	13,484	645	55,281	-	-	-	86,194
Total	11,599	5,185	-	13,484	645	55,281	-	-	-	86,194
Net carrying amount	777,813	331,065	-	138,766	984	37,859	-	-	-	1,286,486
	31 December 2019									
Gross carrying amount										
Leasing	870,366	335,399	-	48,819	-	14,401	-	-	-	1,268,985
Total	870,366	335,399	-	48,819	-	14,401	-	-	-	1,268,985
ECL allowance										
Leasing	77	-	-	-	-	14,401	-	-	-	14,478
Total	77	-	-	-	-	14,401	-	-	-	14,478
Net carrying amount	870,289	335,399	-	48,819	-	-	-	-	-	1,254,506

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18 Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2020	31 December 2019
Loans and advances to customers at amortized cost	116,865,094	110,172,663
Loan loss allowances for impairment	(11,341,581)	(8,709,712)
	105,523,513	101,462,951

Loans and advances to customers by classes can be detailed as follows:

	31 December 2020	31 December 2019
Corporate lending	101,085,436	95,485,485
Mortgage lending	8,835,991	8,314,230
Private individuals lending	1,711,173	2,052,560
Other secured lending	5,232,494	4,320,387
Total gross	116,865,094	110,172,663
Impairment allowance	(11,341,581)	(8,709,711)
	105,523,513	101,462,951

Movements in the impairment for loan losses by classes of loans and advances are detailed as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Balance at the beginning of the year	8,709,712	8,294,530
Allowance for loan loss impairment	3,335,693	2,678,762
Write offs	(722,882)	(2,190,309)
Effect of foreign currency movements	19,058	(73,271)
Balance at the end of the year	11,341,581	8,709,711

For the year ended 31 December 2020, the Group considered unrecoverable late payment interest on loans for an amount of ALL 6,907 thousands (31 December 2019: ALL 3,452 thousand).

18.1 Impairment allowance for loans and advances to customers

ECL	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	1,536,789	1,709,544	2,537,125	8,294,529
Transfer to Stage 1 (from 2 or 3)	370,391	(301,379)	(29,831)	39,181
Transfer to Stage 2 (from 1 or 3)	228,625	96,276	(249,135)	75,766
Transfer to Stage 3 (from 1 or 2)	156,508	1,165,891	1,175,920	2,498,319
Net re-measurement of loss allowance	938,448	-1,457,312	537,468	18,604
New financial assets originated or purchased	-	-	-	-
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	3,230,761	1,213,020	6,897,800	11,341,581

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18 Loans and advances to customers (continued)

18.1 Impairment allowance for loans and advances to customers (continued)

ECL	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	5,194,422	562,981	2,537,125	8,294,529
Transfer to Stage 1 (from 2 or 3)	9,495	(4,207)	(5,288)	-
Transfer to Stage 2 (from 1 or 3)	(580,803)	733,977	(153,174)	-
Transfer to Stage 3 (from 1 or 2)	14,360	(513,224)	498,863	-
Net re-measurement of loss allowance	(3,100,685)	930,017	2,585,851	415,183
New financial assets originated or purchased	-	-	-	-
De-recognition of financial assets	-	-	-	-
Write-offs	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Change in PV of the allowance Account	-	-	-	-
Balance 31 December	1,536,789	1,709,544	5,463,377	8,709,712

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18 Loans and advances to customers (continued)

18.1 Impairment allowance for loans and advances to customers (continued)

The tables below show an analysis of changes in gross carrying amount and the corresponding ECL allowances for each of the above categories is as follows:

Gross carrying amount	31 December 2020									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due
Retail lending	11,290,573	2,339,866	674,647	183,711	586,272	704,589	-	-	-	15,779,658
Mortgage	6,032,752	1,581,718	412,520	110,208	383,657	315,136	-	-	-	8,835,991
Consumer	1,118,922	138,235	27,371	35,508	28,812	82,709	-	-	-	1,431,556
Credit cards	222,528	6,388	31,701	1,310	6,916	10,773	-	-	-	279,617
Other (incl. SBL)	3,916,371	613,526	203,054	36,686	166,887	295,970	-	-	-	5,232,494
Corporate lending	63,264,226	17,375,653	9,316,611	878,902	162,418	10,087,626	-	-	-	101,085,436
Large	48,244,064	13,858,349	8,777,855	180,388	-	8,280,200	-	-	-	79,340,856
SME's	14,375,174	3,517,304	538,756	698,514	162,418	1,807,426	-	-	-	21,099,592
Public sector	644,988	-	-	-	-	-	-	-	-	644,988
Total	74,554,799	19,715,520	9,991,257	1,062,614	748,690	10,792,214	-	-	-	116,865,094
ECL allowance										
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due
Retail lending	60,466	8,750	38,066	9,728	172,127	252,263	-	-	-	541,401
Mortgage	15,735	3,714	22,038	6,164	87,758	119,901	-	-	-	255,310
Consumer	11,782	1,452	2,381	825	11,381	55,138	-	-	-	82,959
Credit cards	2,428	57	1,638	50	4,701	6,802	-	-	-	15,677
Other (incl. SBL)	30,521	3,526	12,009	2,689	68,287	70,423	-	-	-	187,455
Corporate lending	2,014,786	1,146,759	1,058,293	106,933	34,821	6,438,589	-	-	-	10,800,181
Large	1,945,024	1,122,137	1,011,678	0	0	5,468,163	-	-	-	9,547,002
SME's	69,762	24,622	46,615	106,933	34,821	970,426	-	-	-	1,253,179
Public sector	-	-	-	-	-	-	-	-	-	-
Total	2,075,252	1,155,508	1,096,359	116,661	206,948	6,690,853	-	-	-	11,341,581
Net carrying amount	72,479,547	18,560,012	8,894,898	945,953	541,742	4,101,361	-	-	-	105,523,513

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Notes to the consolidated financial statements for the year ended 31 December 2020 (Amounts in ALL '000, unless otherwise stated)

18 Loans and advances to customers (continued)

18.1 Impairment allowance for loans and advances to customers (continued)

	Stage 1		Stage 2		Stage 3		POCI		31 December 2019	
	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Non-Past Due	Past due	Past due	Total
Gross carrying amount										
Retail lending	10,508,608	2,259,952	595,311	226,344	386,327	710,655	-	-	-	14,687,197
Mortgage	5,722,243	1,441,041	342,160	117,737	290,773	400,276	-	-	-	8,314,230
Consumer	1,268,862	252,060	107,464	42,321	38,980	75,170	-	-	-	1,784,857
Credit cards	237,293	6,610	11,642	1,361	2,266	8,531	-	-	-	267,703
Other (incl. SBL)	3,280,210	560,240	134,045	64,925	54,309	226,678	-	-	-	4,320,407
Corporate lending	56,302,382	15,076,640	10,737,423	4,586,606	55,673	8,726,742	-	-	-	95,485,466
Large	42,461,747	12,593,822	9,719,886	3,562,609	-	7,678,241	-	-	-	76,016,305
SME's	13,304,673	2,482,818	1,017,538	1,023,998	55,672	1,048,500	-	-	-	18,933,199
Public sector	535,962	-	-	-	-	-	-	-	-	535,962
Total	66,810,990	17,336,591	11,332,735	4,812,951	442,000	9,437,396	-	-	-	110,172,663
ECL allowance										
Retail lending	20,310	3,055	39,823	13,325	102,497	228,260	-	-	-	407,270
Mortgage	6,414	1,450	22,163	6,100	67,361	120,908	-	-	-	224,396
Consumer	3,190	561	8,941	4,355	15,459	30,835	-	-	-	63,341
Credit cards	1,892	39	1,024	63	1,594	5,362	-	-	-	9,974
Other (incl. SBL)	8,814	1,005	7,695	2,807	18,083	71,155	-	-	-	109,559
Corporate lending	1,000,953	512,470	1,120,258	536,139	14,300	5,118,322	-	-	-	8,302,442
Large	938,556	497,999	1,037,372	417,049	-	4,676,404	-	-	-	7,567,380
SME's	62,397	14,471	82,886	119,090	14,300	441,918	-	-	-	735,062
Public sector	-	-	-	-	-	-	-	-	-	-
Total	1,021,263	515,525	1,160,081	549,464	116,797	5,346,582	-	-	-	8,709,712
Net carrying amount	65,789,727	16,821,065	10,172,655	4,263,485	325,204	4,090,815	-	-	-	101,462,951

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL '000, unless otherwise stated)

19 Repossessed properties

The Group management classified those properties possessed as result of foreclosures on loans that were in default. The carrying amount of the repossessed properties is the fair market value existing as at 31 December 2020 and 31 December 2019.

Repossessed assets by type as at 31 December 2020 and 31 December 2019 are presented as following:

	31 December 2020	31 December 2019
Land	4,352,039	4,766,376
Residential building	198,606	253,833
Commercial Building	355,651	275,426
Total	4,906,296	5,295,635

Movements in repossessed assets as at 31 December 2020 and 31 December 2019 are as following:

	31 December 2020	31 December 2019
Opening balance at 1 January	5,295,636	5,106,821
Additions	983,918	759,909
Disposals	(1,313,328)	(508,832)
Net loss from a fair value adjustment	(59,930)	(62,263)
Closing balance at 31 December	4,906,296	5,295,635

The repossessed properties are measured at the lower of the auction value and fair value and were deemed necessary reduced for any net realizable cost variation. As at 31 December 2019, repossessed properties include land, buildings, residential apartments and commercial and/or business premises. It is the Group intention to sale the repossessed properties as soon as it is feasible. For the year ended as at 31 December 2020 the Group sold ALL 135,368 thousand (31 December 2019: ALL 707,675 thousand) from the repossessed properties portfolio, from which the Group recognized ALL 78,238 thousand as loss on their sale (31 December 2019: ALL 76,830 thousand).

20 Properties held for investment

In December 2020 the Group Shareholders Assembly decided to invest in the Sea Land investment alternative investment fund some of the legally acquired properties located in one of the most attractive areas of the country. Invested properties were valued at fair value at the time of the transfer which was the value assessed by an independent appraiser on 25 November 2020. These properties are held for investment and treated at fair value through IAS 40. The following is information about this investment:

	31 December 2020	31 December 2019
Sea Land alternative investment fund - land for development	2,304,584	-
Total	2,304,584	-

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

21 Long term material assets

Cost	Building	Office equipment	Vehicles	Leasehold improvements	Work in progress	Total
Status on 01 January 2019	1,637,458	1,352,916	530,621	1,063,289	63,224	4,647,508
Extras	-	341,006	49,795	49,400	274,199	714,400
Transfer time	-	154,767	34,823	127,192	(223,962)	92,820
Transfer to inventory journal	-	(285,456)	(20,654)	(1,846)	-	(307,956)
Disposal	-	(13,680)	(21,084)	-	(9,527)	(44,291)
Gain control of the subsidiary	272	1,308	113	-	-	1,693
Status as of December 31, 2019	1,637,730	1,550,861	573,614	1,238,035	103,934	5,104,174
Extras	-	268,840	39,362	128,951	282,358	719,511
Transfer time	-	11,081	36,454	82,046	399,674	529,255
Transfer to inventory journal	-	(306,574)	(10,574)	(5,376)	(385,138)	(707,662)
Disposal	-	(20,231)	(12,388)	(443)	(2,082)	(35,144)
Condition as of December 31, 2020	1,637,730	1,503,977	626,468	1,443,213	398,746	5,610,134
amortization						
Status on 01 January 2019	(328,597)	(658,186)	(206,475)	(377,970)	-	(1,571,228)
Depreciation of the period	(81,873)	(137,257)	(66,367)	(70,545)	-	(356,042)
Transfer to inventory journal	22	64,661	5,266	-	-	69,949
Disposal	-	10,701	10,990	-	-	21,691
Gain control of the subsidiary	(30)	(612)	(46)	-	-	(688)
Status as of December 31, 2019	(410,478)	(720,693)	(256,632)	(448,515)	-	(1,836,318)
Depreciation of the period	(81,885)	(158,997)	(66,403)	(101,239)	-	(408,524)
Transfer to inventory journal	-	20,904	6,373	-	-	27,277
Disposal	-	13,014	7,018	-	-	20,032
Condition as of December 31, 2020	(492,363)	(845,771)	(309,645)	(549,754)	-	(2,197,533)
Residual book value						
Status as of December 31, 2019	1,227,252	830,168	316,982	789,520	103,934	3,267,856
Condition as of December 31, 2020	1,145,367	658,205	316,824	893,459	398,746	3,412,601

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

22 Intangible assets

Cost	Software	Patents and licenses	Total
Balance at 1 January	358,355	72,592	430,947
Additions	273,140	-	273,140
Balance at 31 December 2019	11,874	-	11,874
Additions	643,369	72,592	715,961
Regain of control in subsidiary	107,617	-	107,617
Balance at 31 December 2020	10,487	-	10,487
	(960)	-	(960)
Amortization	760,513	72,592	833,105
Balance at 1 January			
Amortization charge for the year	(265,876)	(57,645)	(323,521)
Balance at 31 December 2019	(28,219)	(5,103)	(33,322)
Amortization charge for the year	(743)	-	(743)
Regain of control in subsidiary			
Balance at 31 December 2020	(294,838)	(62,748)	(357,586)
	(71,845)	(1,466)	(73,311)
Carrying amounts	961	-	961
Balance at 31 December 2019	(365,722)	(64,214)	(429,936)
Balance at 31 December 2020			

23 Right-of-use assets

Group as a lessee

The Group has lease contracts for various buildings that it uses for the branches' operations. Leases of the premises generally have lease terms between 5 and 20 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased. There are several lease contracts that include extension and termination options, which are further discussed below.

The Group also has certain leases of offices (premises) with lease terms of 12 months or less or with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

Cost	Right of use	Total
Effect of adoption of IFRS as at 1 January 2019	3,047,885	3,047,885
Additions	252,550	252,550
Balance at 31 December 2019	3,300,435	3,300,435
Additions	393,493	393,493
Write off	(14,630)	(14,630)
Balance at 31 December 2020	3,679,298	3,679,298
Amortization		
Balance at 1 January	-	-
Amortization charge of the year	(328,721)	(328,721)
Balance at 31 December 2019	(328,721)	(328,721)
Amortization charge of the year	(363,965)	(363,965)
Amortization recovery	14,630	14,630
Balance at December 2020	(678,056)	(678,056)
Carrying amounts		
Balance at 31 December 2019	2,971,714	2,971,714
Balance at 31 December 2020	3,001,242	3,001,242

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

23 Right-of-use assets (continued)

The following are the amounts recognized in profit or loss:

	31 December 2020	31 December 2019
Depreciation expense of right-of-use assets	(347,961)	(328,721)
Interest expense on lease liabilities	(138,632)	(145,944)
Expense relating to short-term leases (included in cost of sales)	(8,914)	(6,434)
Expense relating to leases of low-value assets (included in administrative expenses)	(2,258)	(3,129)
Total amount recognized in profit or loss	(497,765)	(484,228)

24 Other assets

	31 December 2020	31 December 2019
Debtors	589,113	421,010
Inventory warehouse	138,643	71,943
Prepaid expenses	1,082,385	516,369
	1,810,141	1,009,322

A detailed breakdown of debtors and respective impairment loss allowance is presented below:

	31 December 2020	31 December 2019
Debtors, gross	745,465	606,607
ECL/Impairment	(156,352)	(185,597)
	589,113	421,010

	31 December 2020	31 December 2019
Impairment allowance as at 1 January	185,597	196,548
Impairment charge for the year (ECL) (note 6)	(29,245)	(10,951)
Total impairment losses as at 31 December	156,352	185,597

25 Due to banks and other financial institutions

Due to banks and other financial institutions are detailed as follows:

	31 December 2020	31 December 2019
Current accounts – resident	1,993,979	1,143,983
Money market deposits – resident	2,124,527	2,024,729
Reverse Repo – resident	245,937	752,747
Interbank loans – resident	92,804	82,048
	4,457,247	4,003,507

26 Due to customers

	31 December 2020	31 December 2019
Private individuals	165,844,751	153,724,356
Sovereign governments	16,231,565	13,420,004
Corporate	28,917,547	19,821,399
Other customers	2,879,257	2,063,517
	213,873,120	189,029,276

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

26 Due to customers (continued)

The table below shows due to customers by currency are detailed as follows:

	31 December 2020	31 December 2019
Current accounts		
Local currency	33,373,125	24,211,096
Foreign currency	20,371,303	16,780,055
Saving accounts		
Local currency	11,739,555	8,315,327
Foreign currency	27,097,081	21,942,005
Term deposits		
Local currency	65,168,307	61,564,275
Foreign currency	53,275,981	53,485,434
Other customers accounts		
Local currency	952,662	765,869
Foreign currency	1,895,106	1,965,215
	213,873,120	189,029,276

27 Borrowing

Borrowing as at 31 December 2019 and 31 December 2018 are composed of the following items:

	31 December 2020	31 December 2019
Ministry of Economic Development, Trade and Entrepreneurship (ex-METE)	274,538	247,561
Other borrowing	130,001	11,500
	404,539	259,061

Ministry of Economic Development, Trade and Entrepreneurship (ex-METE)

During 2009, the Group obtained a borrowing (soft-loan) from the Ministry of Economy, Commerce and Energy, as part of the "Program for development of the Albanian private sector through a credit line for SMEs and relevant technical assistance" of the Italian-Albanian Development Cooperation (PRODAPS), which aims at supporting the development of the Albanian private sector by facilitating the access to credit of local SMEs.

The annual interest rate is fixed at 0.5% p.a. for lending in EURO, and 3.5% p.a. for lending in ALL. Repayment to the Ministry is according to the same repayment terms settled with the final users of the loan contracts (ultimate borrowers). As at 31 December 2020, the outstanding number of borrowings is ALL 274,538 thousand (31 December 2019: ALL 247,561 thousand), and there are no balances in default related to this borrowing either at 31 December 2020 or at 31 December 2019.

28 Subordinated debt

On 31 October 2011, the general assembly of shareholders approved the issuance of subordinated instruments in ALL, Euro and USD to private individuals. As of 31 December 2020, and 31 December 2019 the instruments are detailed as follows:

Currency	Units of Instruments	31 December 2020	31 December 2019
ALL	3,234	3,286,506	3,493,312
EUR	1,715	2,157,054	2,500,035
USD	474	482,764	662,656
	5,423	5,926,324	6,656,002

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

28 Subordinated debt (continued)

Tranches	Issue date	Maturity date	Units of Instruments	31 December 2020	31 December 2019
7	03.06.2014	03.06.2020	-	-	394,911
8	02.09.2014	02.09.2020	-	-	661,501
9	27.01.2015	27.01.2021	927	849,919	1,051,091
10	05.01.2016	05.01.2022	373	422,259	419,913
11	25.08.2016	25.08.2023	388	476,719	474,121
12	07.02.2017	07.02.2024	482	516,036	516,889
13	02.06.2017	02.06.2024	647	697,078	697,124
14	03.11.2017	03.11.2024	622	680,404	682,573
15	08.03.2018	08.03.2025	500	544,954	546,053
16	28.12.2018	28.12.2025	550	562,931	569,690
17	17.10.2019	17.10.2026	598	642,242	642,136
18	26.06.2020	26.06.2027	502	533,782	-
Total			5,423	5,926,324	6,656,002

29 Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2020	31 December 2019
As at 1 January	3,030,853	3,039,531
Additions	391,890	256,795
Accretion of interest	141,247	145,944
Payments	(438,545)	(411,417)
As at 31 December	3,110,600	3,030,853

The maturity analysis of lease liabilities is disclosed in Note 35. The Group had total cash outflows for leases of 438,545 thousand. (31 December 2019:411,417 ALL)

Minimal lease payments related to lease contracts for buildings of the branches' operations are analyzed as follows:

31 December 2020	Within the year	Minimal lease payments						Total
		1-2 years	2-3 years	3-4 years	4 - 5 years	After 5 years		
Lease payments	442,334	406,820	407,156	388,603	397,637	1,683,817	3,726,367	
Finance charges	(49,309)	(27,420)	(45,759)	(26,509)	(40,112)	(426,658)	(615,767)	
Total	393,025	379,400	361,397	362,094	357,525	1,257,159	3,110,600	

31 December 2019	Within the year	Pagesat minimale të qirasë						Total
		1-2 years	2-3 years	3-4 years	4 - 5 years	After 5 years		
Lease payments	405,080	379,934	363,909	361,717	346,618	1,439,068	3,296,326	
Finance charges	(18,053)	(17,106)	(16,419)	(16,325)	(15,677)	(181,893)	(265,473)	
Total	387,027	362,828	347,490	345,392	330,941	1,257,175	3,030,853	

30 Other liabilities

Other liabilities are comprised of the following:

	31 December 2020	31 December 2019
Transactions as agents	406,590	171,809
Suppliers and accrued payables	177,910	148,654
Total	584,500	320,463

31 Provisions

Provisions as at 31 December 2020 and 31 December 2019 are composed of the following:

	31 December 2020	31 December 2019
Provisions for litigations	5,521	750
ECL impairment for off balance sheet items	6,162	-
Other provisions	5,581	4,600
Total	17,264	5,350

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

31 Provisions (continued)

In the table below are presented the movements in provisions occurred during the year ended 31 December 2020 and 31 December 2019.

	31 December 2020	31 December 2019
Balance at 1 January	5,350	58,844
ECL charge/(recovery) for off balance sheet items	6,162	(51,969)
Provisions	6,521	-
Recovery of other provision	(769)	(1,525)
Balance at 31 December	17,264	5,350

During the year ended 31 December 2020 there were some recoveries of the provisions of ALL 51,969 thousand for off balance sheet items and also other provision recoveries of an amount of ALL 1,525 thousand.

32 Share Capital

The share capital is composed of type A shares and normal shares both with a nominal value of 1 USD for each share. The subscribed share capital contributed by the shareholders of the Group is denominated in USD, EUR and ALL and is reported in the Financial Statements with the historical rates of exchange. As at 31 December 2020 the subscribed share capital amounts to USD 18,404 thousand, EUR 31,145 thousand and ALL 3,924,145 thousand. Shares are ranked as normal and type A and are owned by the following shareholders:

	31 December 2020 (%)	31 December 2019 (%)
Share Capital		
Renis Tershana	18.525%	21.932%
Aleksander Pilo	8.722%	14.268%
B.F.S.E Holding BV	15.208%	15.375%
Group Executive Directors	6.930%	7.006%
Other (less than 5% of shareholding)	50.615%	41.418%
Total	100.000%	100.000%

The paid-up capital of the Group as of 31 December 2020 is ALL 10,213,523 thousand translated at the historical rate of exchange (31 December 2019: ALL 9,611,068 thousand) with a nominal value of USD 1 each.

On 31 January 2019 the Assembly decided for the issuance of a new capital to the amount of EUR 4 million. This amount was subscribed and paid fully within 29th September 2019. On 1st October 2019 the Assembly decided for another issuance of new capital at the amount of EUR 24 million with a deadline for subscription 30th June 2020. As of 31 December 2020, the amount of capital of EUR 3,800 thousand out of the 24th million is subscribed and registered in the national business center (NBC).

The shares of the Group have a nominal value and are indivisible. Each share gives its owner the right to one vote. The Group holds "ordinary shares" and "class A" shares, where each of these shares has a nominal value of USD 1 per share. The "class A" shares afford to their holder certain rights and privileges, mainly in relation to the transfer of shares, sale of shares, conversion of "class A" shares into ordinary shares, and the right to propose to appoint and remove 2 members of the BOD. The holders of the class "A" shares acting jointly through an appointed representative will have the rights and privileges attached to their class "A" shares with regard to "pre-approval" of certain changes and decisions, and certain "information rights".

All shares held by B.F.S.E Holding BV or S.E.C.O. shall all time be "A" shares. All other shareholders of the Group hold ordinary shares. A reconciliation of share capital at the beginning and end of the year are as follows:

	Normal shares		Type A shares	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
As at 1 January	711,617,675	62,985,036	16,206,464	14,765,011
Increase in number of shares:	1,336,779	8,632,639	3,958,827	1,441,453
As at 31 December	72,954,454	71,617,675	20,165,291	16,206,464

As of 09 July 2020, the shareholder's assembly decided on the distribution of the result of 2019 profit, out of which ALL 489,171 thousand allocated for capital increase.

33 Share Premium

During the year ended 31 December 2020, the Group has issued new shares generating a share premium of ALL 92,493 thousand from emission of new capital (31 December 2019: ALL 551,092 thousand).

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

34 General reserve

The Group has created two reserves through appropriations from retained earnings being the general reserve, which represents the risk weighted assets reserve, as required by the Central Bank, and the statutory reserve, as required by the by-laws of the Group. The general reserve is calculated as 1.25% of the risk weighted assets, whereas the statutory reserve is calculated as 5% of annual profit. These reserves are not distributable.

	31 December 2020	31 December 2019
General reserve	2,138,276	1,877,385
Statutory reserve	395,578	330,355
Total	2,533,854	2,207,740

35 Maturity analysis of assets and liabilities

31 December 2020

	< 12 months	> 12 months	Total
Assets			
Cash and cash equivalent	27,073,989	-	27,073,989
Restricted balances with Central Bank	13,253,916	2,357,603	15,611,519
Loans and advances to banks	117,001	54,604	171,605
Investment securities measured at FVPL	7,757	407,407	415,164
Debt instruments at fair value through other comprehensive income	12,312,483	47,214,725	59,527,208
Debt instruments at amortised cost	72,575	21,348,135	21,420,710
	-	23,253	23,253
Investment in subsidiaries and associates	-	19,149	19,149
Goodwill	-	39,971	39,971
Leasing	93,892	1,192,594	1,286,486
Loans and advances to customers	32,939,535	72,583,978	105,523,513
Current tax assets	23,366	-	23,366
Repossessed properties	-	4,906,296	4,906,296
Property and equipment	-	2,304,584	2,304,584
Long term material assets	-	3,412,601	3,412,601
Intangible assets	-	403,169	403,169
Right-of-use assets	34,423	2,966,819	3,001,242
Other assets	492,824	1,317,317	1,810,141
Total	86,421,761	160,552,205	246,973,966
Liabilities			
Due to banks and other financial institutions	4,236,847	220,400	4,457,247
Due to customers	174,192,097	39,681,023	213,873,120
Borrowing	190,491	214,048	404,539
Subordinated debt	849,919	5,076,405	5,926,324
Deferred tax liabilities	-	65,129	65,129
Lease liability	-	3,110,600	3,110,600
Other liabilities	584,500	-	584,500
Provisions	-	17,264	17,264
Total	180,053,854	48,384,869	228,438,723
Net	(93,632,093)	112,167,336	18,535,243

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

31 December 2019

Assets

	< 12 months	> 12 months	Total
Cash and cash equivalent	24,169,118	-	24,169,118
Restricted balances with Central Bank	12,369,965	1,451,744	13,821,709
Loans and advances to banks	138,498	51,060	189,558
Investment securities measured at FVPL	13,298	699,930	713,228
Debt instruments at fair value through other comprehensive income	1,524,951	48,229,350	49,754,301
Debt instruments at amortised cost	19,720	16,569,117	16,588,837
Investment in subsidiaries and associates	-	26,225	26,225
Goodwill	-	39,971	39,971
Leasing	83,991	1,170,515	1,254,506
Loans and advances to customers	37,863,887	63,599,064	101,462,951
Current tax assets	109,484	-	109,484
Repossessed properties	-	5,295,635	5,295,635
Property and equipment	-	3,267,856	3,267,856
Long term material assets	-	-	-
Intangible assets	-	358,375	358,375
Right-of-use assets	4,177	2,967,537	2,971,714
Other assets	9,676	999,646	1,009,322
Total	76,306,765	144,726,025	221,032,790

Liabilities

Due to banks and other financial institutions	4,236,847	220,400	4,457,247
Due to customers	174,192,097	39,681,023	213,873,120
Borrowing	190,491	214,048	404,539
Subordinated debt	849,919	5,076,405	5,926,324
Deferred tax liabilities	-	65,129	65,129
Lease liability	-	3,110,600	3,110,600
Other liabilities	584,500	-	584,500
Provisions	-	17,264	17,264
Total	180,053,854	48,384,869	228,438,723

Net

(70,794,856) 88,429,004 17,634,148

Expected maturity dates do not differ significantly from the contract dates, except for:

- Retail deposits, which are included within Due to customers, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers, and are renewable at the end of their contractual term, and
- Overdrafts, which are included within "Loans and advances to customers", which are generally short term and with a contractual maturity of up to 12 months, but in practice are renewed and their maturity is extended for another period, usually of up to 12 months.

36 Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Commitments and contingencies include guarantees extended to customers and received from credit institutions. The balance is comprised of the following:

	31 December 2020	31 December 2019
Guarantees in favour of customers	4,879,958	4,716,905
Commitments in favour of customers	4,900,081	3,315,737
ECL impairment	(6,162)	-
Net of impairment	9,773,877	8,032,642
Guarantees pledged from credit customers	2,812,785	2,812,785
Guarantees received from credit customers	448,363,487	448,363,487
Commitments on securities	470,185	470,185
Commitments from financial institutions	9,825,792	9,825,792

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

36 Contingent liabilities and commitments (continued)

Guarantees and letter of credit

Guarantees received from customers include monetary collateral, mortgages, inventories and other collateral assets placed in favor of the Group by the borrower. The group issues guarantees and letters of credit to its customers. These instruments carry a credit risk similar to that of loans granted. Based on management calculations, there is no material loss related to guarantees and letters of credit as at 31 December 2020.

An analysis of changes in the value of expected losses is presented as follows:

Guarantees

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	-	-	-	-
Transition to Stage 1 (from 2 or 3)	-	-	-	-
Transition to Stage 2 (from 1 or 3)	-	-	-	-
Transition to Stage 3 (from 1 or 2)	-	-	-	-
Net loss remeasurement	-	-	-	-
Financial assets acquired or originated	6,162	-	-	6,162
Derecognition of financial assets	-	-	-	-
Off balance sheet	-	-	-	-
Changes in the model, risk parameters	-	-	-	-
Exchange rate changes	-	-	-	-
Changes in the present value of depreciation	-	-	-	-
Balance at 31 December	6,162	-	-	6,162

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	51,969	-	-	51,969
Transition to Stage 1 (from 2 or 3)	-	-	-	-
Transition to Stage 2 (from 1 or 3)	-	-	-	-
Transition to Stage 3 (from 1 or 2)	-	-	-	-
Net loss remeasurement	-	-	-	-
Financial assets acquired or originated	(51,969)	-	-	(51,969)
Derecognition of financial assets	-	-	-	-
Off balance sheet	-	-	-	-
Changes in the model, risk parameters	-	-	-	-
Exchange rate changes	-	-	-	-
Changes in the present value of depreciation	-	-	-	-
Balance at 31 December	-	-	-	-

Operating lease commitments - Lessee

The group has rented offices in Tirana, Durrës, Fier, Vlora, Lezha, Elbasan, Shkodra, Korca, Shijak, Kavaja, Kukes, Berat, Ballsh, Mat, Peshkopi and Vora generally with a term of less than 10 years. Detailed information regarding the changes that have occurred as required by IFRS 16 is presented in note 23. These future commitments for the year ended 31 December 2020 and 31 December 2019 are detailed as follows:

	31 December 2020	31 December 2019
Not later than 1 year	439,524	366,885
Later than 1 year and not later than 5 years	1,897,550	1,783,951
Later than 5 years	1,759,881	2,899,039
Total	4,096,955	5,049,875

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

36 Contingent liabilities and commitments (continued)

Litigation and claims

The Group is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. Management believes that the ultimate costs to resolve these matters will not have a material adverse effect on the Group's financial position, results of operations, or cash flows.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken.

The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims with no probable adverse effects. Accordingly, no provision, except for the amounts included in provisions note 30, has been made in these Financial Statements.

37 Related party disclosures

In the following tables, the Group presents the relationships that existed between the Group and its related parties, the nature of the transactions, outstanding amounts and expenses and/or income recognized as at 31 December 2020 and 31 December 2019.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Persons or entities that are related to the Group, by being either a person or close member of that person's family to the Group, by having control or joint control by a person or close member of that person's family, or by having significant influence over the entity, are presented as other related parties.

Related party transactions

Transaction	31 December 2020		31 December 2019	
	Key Management Personnel	Other related parties	Key Management Personnel	Other related parties
Lease expense	-	27,902	-	28,722
Income	997	318,511	1,060	226,741
Expenses	67,938	44,351	72,347	38,260

Type of transaction	31 December 2020		31 December 2019	
	Key Management Personnel	Other related parties	Key Management Personnel	Other related parties
	ALL '000	ALL '000	ALL '000	ALL '000
Credit Line	-	-	-	118,000
Overdrafts	2,290	18,988	2,052	4,396
Term Loans	57,941	1,990,472	61,569	1,869,347
Leasing	3,677	7,466	4,927	16,489
LCs + LGs	-	32,139	-	132,543
Current accounts	(43,540)	(91,059)	(9,451)	(310,126)
Term deposits	(39,376)	(176,583)	(66,043)	(126,490)
Collateral placed in favour of the Group	(89,987)	(8,021,522)	(87,745)	(8,934,726)

Type of transaction	Interest rates (in %)	
	31 December 2020	31 December 2019
Credit Line	0.00%	7.80%
Overdrafts	1.8%-20%	1.98%-20%
Term Loans	0.5%-8%	0.5%-8.2%
Leasing	5.8%-8.5%	5.8%-8.5%
Current accounts	0%	0%
Term deposits	0.0%-4.5%	0.0%-4.5%

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

37 Related party disclosures (continued)

In addition, the key management personnel remuneration has been as follows, with no other benefits to disclose as at 31 December 2020 and 31 December 2019:

	Salaries	Bonuses
Year ended 31 December 2020		
Key management remuneration	53,605	13,045
Board of Directors remuneration	2,876	1,864
Year ended 31 December 2019		
Key management remuneration	56,702	12,081
Board of Directors remuneration	949	1,726

38 Risk management

38.1 Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight and control of the Group's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Group risk management policies in specified areas up to predetermined limits of exposure.

The risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, 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.

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening.

The government of Albania has responded by announcing a sovereign guarantee to all the business which are facing liquidity problems and will seek financing. Furthermore, the Bank of Albania has announced that customer that will face liquidity problems can request a postponement of the settlement of their liabilities toward the Groups for a 3 months period. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods. The 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.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other Groups and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The risk arising from investments in securities is maintained in low levels as investments are made only in government securities, Treasury Bills and Bonds, considered as low risk investments.

The Board of Directors has delegated responsibility for the management of credit risk to its Group Credit Committees for all credit exposures within 5% of the Group's regulatory capital. The Board of Directors in cooperation with the Credit Committee is responsible for oversight of the Group's credit risk, including: formulating credit policies, covering collateral requirements, credit assessment, documentary and legal procedures, compliance with regulatory and statutory requirements, establishing the authorization structure for the approval and renewal of credit facilities.

Authorization limits are allocated to Risk Division Credit Committees. Larger facilities require approval by Senior Credit Committee, with the involvement of the High Management level or the Board of Directors as appropriate. Credit decision making Authorities assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

Developing and maintaining the Group's risk classifications in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades in accordance with the Central Bank Credit Risk Management Regulation, reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approval by Credit Committee and these grades are subject to regular monthly reviews. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. Each branch and business unit are required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit/branch has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit/branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subjects to central approval.

For the year ending 2020, 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 is analyzing macroeconomic changes and will reflect these changes in the stress tests used to determine the corrective factor in the pessimistic scenario. Changing the macroeconomic factor to reflect the impact of COVID-19 will impact the calculation of the Expected Credit Loss (note 2.4.6.2)

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Regular audits of business units and Group Credit processes are undertaken by Internal Audit. Based on the Group's internal rating policy, the portfolio rating as at 31 December 2020 and 31 December 2019 is as follows:

Group's Credit Rating	31 December	% to Total	31 December	% to Total
	2020	Gross	2019	Gross
A+	309,755	0.26%	220,382	0.20%
A	5,410,720	4.58%	4,428,896	3.97%
A-	15,276,136	12.92%	18,034,733	16.18%
B+	11,463,739	9.70%	8,515,977	7.64%
B	40,374,885	34.15%	32,272,822	28.96%
B-	1,729,228	1.46%	6,820,096	6.12%
C+	2,039,567	1.72%	511,440	0.46%
C	156,537	0.13%	482,208	0.43%
D+	1,177,000	1.00%	1,245,162	1.12%
D	8,547,331	7.23%	5,613,327	5.04%
E+	78,550	0.07%	823,271	0.74%
E	845,495	0.72%	967,646	0.87%
E-	98,154	0.08%	105,383	0.09%
Loans with a credit rating	87,507,097	74.01%	80,041,343	71.82%
Loans with no rating	11,354,021	9.60%	14,547,859	13.05%
Loans with credit score	18,598,997	15.73%	16,230,979	14.56%
Total Gross Loan portfolio	117,460,115	99.34%	110,820,181	99.44%
Leasing with no rating	777,659	0.66%	621,466	0.56%
Total Gross Loan & Leasing portfolio	118,237,774	100.00%	111,441,647	100.00%

The table below shows the credit quality by class of asset for loans and advances to customers and leasing to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

Group's Internal Credit Rating	31 December 2020		31 December 2019	
	Default rates in %	Total	Default rates in %	Total
High grade		27,051,140		33,908,197
Risk rating class 1	1.96%	2,290,437	1.89%	4,970,227
Risk rating class 2	5.42%	6,069,448	3.81%	7,899,615
Risk rating class 3	3.15%	18,691,255	3.74%	21,038,355
Standard grade		61,559,262		43,877,966
Risk rating class 4	2.68%	17,958,732	3.12%	14,198,518
Risk rating class 5	3.17%	43,600,530	5.97%	29,679,448
Sub-standard grade		29,627,372		3,572,880
Risk rating class 6 and lower	31.82%	17,495,692	35.66%	3,572,880
No rating				
Risk rating class 6 and lower	9.06%	11,354,021	3.63%	29,461,138
Leasing with no rating				
Risk rating class 6 and lower	2.35%	777,659	2.63%	621,466
Total		118,237,774		111,441,648

The classification of the internal rating is in accordance with the Group's procedures regarding the different segments of the client. In the high grade class are included the valuations for the commercial clients (A+, A,A-) and the valuations for individuals and micro (classes 1,2). For the standard grade are included the valuations for the commercial clients (B+,B) and the valuations for individuals and micro (classes 3,4,5). And in the sub-standard grade are included the valuations for the commercial clients (B- and lower) the valuations for individuals and micro (classes 6,7).

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk

	Gross maximum exposure	
	31 December 2020	31 December 2019
Cash and cash equivalent (excluding cash on hand)	22,591,853	19,689,473
Restricted balances with Central Bank	15,611,519	13,821,709
Loans and advances to banks	171,605	189,558
Financial assets measured at FVPL	415,164	713,228
Debt instruments at fair value through other comprehensive income	59,527,208	49,754,301
Debt instruments at amortised cost	21,410,570	16,588,837
Investment fund	2,304,584	
Leasing (gross)	1,372,680	1,268,985
Loans and advances to customers (gross)	116,864,363	110,172,663
Other assets (Debtors)	589,113	421,010
Total	240,858,659	212,619,764
Undrawn credit commitments	4,693,613	3,155,088
Letters of credit	206,468	160,649
Guarantees in favor of customers	4,879,958	4,716,905
Total Credit related commitments	9,780,039	8,032,642
Total Credit Risk Exposure	250,638,698	220,652,406

The aging of past due and not impaired exposures for loans and advances to customers as at 31 December 2020 and 31 December 2019 is presented in the following table:

	31 December 2020	31 December 2019
Past due but not individually impaired		
0-30 days	76,661	141,139
61 - 90 days	-	4,588
over 90 days	199,523	696,332
Total	276,184	842,059

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

The table below shows the credit quality for loans and advances to customers for the year as at 31 December 2020 and 31 December 2019, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

31 December 2020

	Neither past due nor impaired			Total
	Investment grade	Standard grade	Sub standard grade	
Corporate lending	13,075,134	44,370,830	5,886,322	8,373,356
Small business lending	8,530,257	7,237,494	1,284,372	2,412,343
Consumer lending	2,632,031	3,085,418	590,689	324,902
Residential mortgage	1,972,933	5,080,038	1,212,292	116,504
Total	26,210,355	59,773,780	8,973,675	11,227,105
				276,184
Allowances for impairment of loans	551,166	2,789,009	512,736	848,626
Loan exposure, net of allowances	25,659,189	56,984,771	8,460,939	10,378,479
				276,184

31 December 2019

	Neither past due nor impaired			Total
	Investment grade	Standard grade	Sub standard grade	
Corporate lending	13,834,752	33,434,064	8,398,485	13,206,725
Small business lending	8,481,406	6,711,566	1,626,105	1,236,871
Consumer lending	2,988,159	2,602,758	576,899	8,604
Residential mortgage	2,120,445	4,518,325	1,115,023	71,945
Total	27,424,762	47,266,713	11,716,512	14,524,145
				842,059
Allowances for impairment of loans	378,588	1,472,089	1,016,977	542,989
Loan exposure, net of allowances	27,046,174	45,794,624	10,699,536	13,981,156
				842,059

For the purpose of this disclosure, the Group includes under the category of "neither past due nor impaired" loans that are tested collectively for impairment.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

The table below shows the credit quality for leasing for the year as at 31 December 2020 and 31 December 2019, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

31 December 2020

	Neither past due nor impaired			Total
	High grade	Standard grade	Sub standard grade	
Corporate	241,168	42,268	-	167,483
Small business	164,149	91,208	-	367,128
Consumer	11,437	-	-	202,727
Residential mortgage	-	-	-	-
Total	416,754	133,476	-	737,338
				85,113
Allowances for impairment of leasing	17,020	2,304	-	14,464
Leasing exposure, net of allowances	399,734	131,172	-	722,874
				52,406
				32,707

31 December 2019

	Neither past due nor impaired			Total
	High grade	Standard grade	Sub standard grade	
Corporate	339,904	70,339	-	233,987
Small business	152,453	76,376	-	197,754
Consumer	8,446	-	-	173,494
Residential mortgage	-	-	-	-
Total	500,803	146,715	-	605,235
				16,232
Allowances for impairment of leasing	1,236	-	-	109
Leasing exposure, net of allowances	499,568	146,715	-	605,125
				13,134
				3,098

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

The following tables set out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 2.4.6.1.

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and Cash equivalents				
Current accounts with banks				
Low- fair risk	3,042,831	-	-	3,042,831
Less: allowance	(1,607)	-	-	(1,607)
Carrying amount	3,041,224	-	-	3,041,224
Money market placements				
Low- fair risk	2,413,526	-	-	2,413,526
Less: allowance	(873)	-	-	(873)
Carrying amount	2,412,653	-	-	2,412,653
Unrestricted balances with central bank				
Low- fair risk	17,910,994	-	-	17,910,994
Less: allowance	(43,281)	-	-	(43,281)
Carrying amount	17,867,713	-	-	17,867,713
Total	23,321,590	-	-	23,321,590

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and Cash equivalents				
Current accounts with banks				
Low- fair risk	2,920,510	-	-	2,920,510
Less: allowance	(2,125)	-	-	(2,125)
Carrying amount	2,918,385	-	-	2,918,385
Money market placements				
Low- fair risk	9,927,744	-	-	9,927,744
Less: allowance	(6,414)	-	-	(6,414)
Carrying amount	9,921,331	-	-	9,921,331
Unrestricted balances with central bank				
Low- fair risk	7,266,933	-	-	7,266,933
Less: allowance	(15,043)	-	-	(15,043)
Carrying amount	7,251,891	-	-	7,251,891
Total	20,091,606	-	-	20,091,606

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Restricted cash at Central Bank				
Low- fair risk	15,652,021	-	-	15,652,021
Less: allowance	(40,502)	-	-	(40,502)
Carrying amount	15,611,519	-	-	15,611,519

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Restricted cash at Central Bank				
Low- fair risk	13,850,334	-	-	13,850,334
Less: allowance	(28,625)	-	-	(28,625)
Carrying amount	13,821,709	-	-	13,821,709

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Debt instruments at fair value through other comprehensive income				
Low- fair risk	59,643,680	-	-	59,643,680
Less: allowance	(116,471)	-	-	(116,471)
Carrying amount	59,527,208	-	-	59,527,208

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Investment securities				
Low- fair risk	49,832,370	-	-	49,832,370
Less: allowance	(78,069)	-	-	(78,069)
Carrying amount	49,754,301	-	-	49,754,301

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Debt instruments at amortised cost				
Low- fair risk	21,437,916	-	-	21,437,916
Less: allowance	(17,206)	-	-	(17,206)
Carrying amount	21,420,710	-	-	21,420,710

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Debt instruments at amortised cost				
Low- fair risk	16,591,294	-	-	16,591,294
Less: allowance	(2,457)	-	-	(2,457)
Carrying amount	16,588,837	-	-	16,588,837

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Leasing				
Low- fair risk	1,110,829	970	2,462	1,114,261
Monitoring	14,832	151,281	44,791	210,904
Substandard	-	-	1,398	1,398
Doubtful	-	-	27,868	27,868
Lost	-	-	18,249	18,249
Less: allowance	(16,783)	(13,484)	(55,926)	(86,194)
Carrying amount	1,108,877	138,766	38,843	1,286,486

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Leasing				
Low- fair risk	1,205,765	3,446	-	1,209,211
Monitoring	-	41,145	-	41,145
Substandard	-	-	-	-
Doubtful	-	-	-	-
Lost	-	-	18,628	18,628
Less: allowance	(7)	-	(14,472)	(14,478)
Carrying amount	1,205,758	44,591	4,157	1,254,506

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Low- fair risk	93,826,586	4,318,073	880,994	99,025,653
Monitoring	413,863	2,265,098	114,973	2,793,934
Substandard	10,680	794,453	1,018,793	1,823,926
Doubtful	1,017	3,676,086	3,401,283	7,078,386
Lost	18,172	161	6,124,862	6,143,195
Less: allowance	(3,230,761)	(1,213,020)	(6,897,800)	(11,341,581)
Carrying amount	91,039,557	9,840,851	4,643,105	105,523,513

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Low- fair risk	81,035,063	6,828,018	642,255	88,505,337
Monitoring	1,000,110	8,048,162	154,720	9,202,993
Substandard	343,905	1,181,596	515,942	2,041,443
Doubtful	1,544,431	73,158	6,328,662	7,946,251
Lost	224,073	14,749	2,237,817	2,476,640
Less: allowance	(1,536,789)	(1,709,544)	(5,463,378)	(8,709,712)
Carrying amount	82,610,793	14,436,140	4,416,018	101,462,951

Financial guarantees and other commitments

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Low- fair risk	9,780,039	-	-	9,780,039
Less: allowance	(6,162)	-	-	(6,162)
Carrying amount	9,773,877	-	-	9,773,877

Financial guarantees and other commitments

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Low- fair risk	8,032,642	-	-	8,032,642
Less: allowance	-	-	-	-
Carrying amount	8,032,642	-	-	8,032,642

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

The table below shows the net exposure to loans and advances to customers and leasing as at 31 December 2020 and 31 December 2019, categorized as per individual and collective impaired portfolio:

	Net exposure to Loans and advances to customers and leases	
	31 December 2020	31 December 2019
<i>Individually impaired</i>		
Past due and impaired	10,489,107	8,414,703
Allowance for impairment	(6,692,449)	(5,312,203)
Carrying amount	3,796,658	3,102,500
<i>Collectively assessed for impaired</i>		
Past due but not impaired	276,184	842,059
Carrying amount	276,184	842,059
Neither past due nor individually impaired	107,472,482	102,184,885
Allowance for impairment	(4,735,325)	(3,411,987)
Carrying amount	102,737,157	98,772,898
Total carrying amount on loans and advances to customers	106,809,999	102,717,457

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group 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).

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in its loan portfolio. The main components of this allowance are the specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but not identified as well as expected losses on loans subject to individual assessment for impairment.

Write-off policy

The writing off of losses is done following a decision from the Board of Directors when the legal process of demanding payment from the borrower is completed and the borrower continues to be a debtor to the Group for the unpaid portion.

Loans and advances to customers

The Group holds collateral against loans and advances to customers and leasing in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral is not usually held against investment securities, and no such collateral was held at 31 December 2020 or 31 December 2019. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	31 December 2020	31 December 2019
Against individually impaired:	41,197,466	41,197,466
Property	28,321,959	28,321,959
Other	12,875,507	12,875,507
Against collectively impaired:	386,488,351	386,488,351
Property	265,559,954	265,559,954
Other	120,928,397	120,928,397
	427,685,817	427,685,817

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Exposure to credit risk (continued)

The financial effect of collateral, by showing the level of provisions if no collateral would be considered is shown as below:

	31 December 2020	31 December 2019
Gross amount of loans	118,237,773	111,441,648
Provisions if no collateral would be considered	(12,073,264)	(13,236,629)
Total carrying amount on loans and advances to customers	106,164,509	98,205,019

Risk concentration

The Group monitors concentrations of credit risk by industry sector, geographic location, counterparty, maturity and currency. An analysis of concentrations of credit risk by industry sector and geographic location at the reporting date is shown below:

Loans and advances to customers and leasing	31 December 2020			31 December 2019		
	Albania	Others	Total	Albania	Others	Total
Construction	12,298,027	3,793,678	16,091,705	12,417,313	3,487,593	15,904,906
Commerce	35,356,801	499,411	35,856,212	34,749,853	788,352	35,538,205
Consumer loans	7,111,581	46,496	7,158,077	6,515,002	39,904	6,554,906
Public, social and personal services	28,463,933	789,288	29,253,221	25,331,514	1,167,429	26,498,943
Processing industry	6,387,537	1,145,815	7,533,352	6,752,934	805,791	7,558,725
Hotels and restaurants	3,321,696	-	3,321,696	2,956,759	-	2,956,759
Production and distribution of electricity/water	1,092,544	51,903	1,144,447	1,010,010	47,951	1,057,961
Real estate	1,155,546	-	1,155,546	1,093,993	-	1,093,993
Transport and telecommunication	420,699	-	420,699	432,837	-	432,837
Agriculture	879,058	-	879,058	662,052	-	662,052
Mining	1,103,919	-	1,103,919	969,142	-	969,142
Health and social activities	2,023,337	742,028	2,765,365	1,511,726	-	1,511,726
Fishery	60,486	-	60,486	45,797	-	45,797
Other	11,451,605	42,385	11,493,990	10,630,627	25,069	10,655,696
	111,126,769	7,111,004	118,237,773	105,079,559	6,362,089	111,441,648

An analysis of concentrations of credit risk by industry sector at the reporting date is shown below:

31 December 2020	Gross value of restructured loans					Provision expense			
	Corporate lending	Small business lending	Consumer lending	Residential mortgage	Total	Stage 1	Stage 2	Stage 3	Total
Individuals	-	2,081,275	7,158,077	8,835,991	18,075,343	-	-	-	-
Public Sector	644,988	-	-	-	644,988	-	-	-	-
Trade	30,639,754	5,216,458	-	-	35,856,212	-	-	-	-
Manufacturing	6,842,194	1,835,605	-	-	8,677,799	-	-	-	-
Construction	13,240,820	2,850,884	-	-	16,091,704	-	-	-	-
Services	20,680,866	6,383,952	-	-	27,064,818	-	-	-	-
Others	8,457,251	3,369,658	-	-	11,826,909	-	-	-	-
Total	80,505,873	21,737,832	7,158,077	8,835,991	118,237,773	-	-	-	-
Financial Services	16,039	41,646	-	-	57,685	-	-	-	-

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Risk concentration (continued)

31 December 2019	Gross value of restructured loans				Total
	Corporate lending	Small business lending	Consumer lending	Residential mortgage	
Individuals	-	1,842,543	6,554,907	8,314,230	16,711,680
Public Sector	535,962	-	-	-	535,962
Trade	30,193,750	5,344,456	-	-	35,538,206
Manufacturing	6,414,770	2,201,917	-	-	8,616,687
Construction	13,863,214	2,041,691	-	-	15,904,905
Services	19,395,897	5,155,914	-	-	24,551,811
Others	6,792,904	2,789,492	-	-	9,582,397
Total	77,196,497	19,376,013	6,554,907	8,314,230	111,441,648
Financial Services	16,039	41,646	-	-	57,685

Notes about Covid-19

The following tables present the restructured loan exposures of the group as at 31 December 2020:

Loans and advances to customers	31 December 2020					
	Gross value	Performance loans		Non-performing loans		Total Forborne loans
		Modification of T&C	Total restructured performance loans	Modification of T&C	Total restructured non-performing loans	
SME	102,243,221	44,496,169	44,496,169	94,100	94,100	44,590,269
Consumer loans	7,157,831	953,705	953,705	112,187	112,187	1,065,892
Mortgage loans	8,835,991	1,273,822	1,273,822	31,666	31,666	1,305,488
Total	118,237,043	46,723,696	46,723,696	237,953	237,953	46,961,649

Loans and advances to customers	31 December 2020								
	Gross value of restructured loans					Provision expense			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
SME	40,414,101	3,965,724	210,444	44,590,269	2,477,873	818,514	67,552	3,363,939	
Consumer loans	766,946	110,624	188,322	1,065,892	6,093	8,736	51,062	65,891	
Mortgage loans	1,110,023	140,059	55,407	1,305,488	2,468	2,923	4,831	10,223	
Total	42,291,070	4,216,407	454,172	46,961,649	2,486,434	830,173	123,446	3,440,053	

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.2 Credit risk (continued)

Notes about Covid-19 (Continued)

In the current economic climate, the Group has been asked, encouraged and recommended by the government and the regulator to provide its clients with new loans that are included in two types of loans with the support of the Government. The main indicators of each support program include (but are not limited to) the following:

1- Payment of salaries included in the Covid-19 program

- Loans are supported 100% by government guarantees for a total of 318.3 million ALL;
- Funds are disbursed only to support salaries for up to three consecutive months (calculated based on the February payroll);
- The applicable interest rate is calculated as the 12M treasury bill return rate adjusted with a premium of 0.5% to 2.85%;
- Creditors should be formally classified as customers / industries / sectors affected by the pandemic;
- These loans will be disbursed with an administration fee of 0% and a grace period of up to 3 months will be applied; AND
- Loans disbursed only in Lek have a maturity of up to 2 years.

2- Government loan of Covid-19 program, for business development ("Working capital")

- Loans are supported by 60% of government guarantees for a total of ALL 1,176 billion;
- Loans will help creditors address working capital and investment needs, and provide support for trading operations. In no case should these funds be used for illegal activities or for refinancing other loans.
- The applicable interest rate is calculated as the return rate of 12M treasury bills (last 3 auctions) adjusted with a premium of 3% to 5%;
- Creditors should be formally classified as clients / industries / sectors affected or temporarily closed by the pandemic;
- These loans will be disbursed with an administration fee according to normal working conditions and a grace period of up to 6 months will be applied; AND
- Loans disbursed only in Lek have a maturity of up to 5 years.

The following tables present the number of customer accounts and the value of the associated loan which were provided under the government support programs as of December 31, 2020.

31 December 2020				
	SME	Consumer loan	Mortgage loan	Total
Number of accounts with pending applications	-	-	-	-
Number of approved accounts	101	-	-	101
The credit value of the scheme clients	1,189,869	-	-	1,189,869
% Of portfolio	100%	0.00%	0.00%	100%

The following tables present the gross value and the corresponding provision according to the classification for loans and advances to clients subject to the easing measures supported by government programs as at 31 December 2020.

31 December 2020				
	Stage 1	Stage 2	Stage 3	Total
Gross value	1,189,343	-	526	1,189,869
% Of portfolio	100%	0%	0%	100%
Provision	6,673	-	-	6,673
% Of total provision	100%	0%	0%	100%

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. Short-term liquidity is managed by the Treasury Department, while mid-term and long-term liquidity is managed by ALCO. The Risk Management Division reports regularly to ALCO and the Treasury Department on level of exposure to liquidity risk.

Treasury Department maintains a portfolio of short-term liquid assets, made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Group. Daily reports produced by Treasury as well as weekly and monthly reports produced by the Risk Management Division cover the liquidity position of the Group. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are the calculation of liquidity ratios and the evaluation of liquidity gaps for specific periods.

The Group calculates on a weekly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short-term deposits with banks maturing within one month. Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

	31 December 2020	31 December 2019
Average for the period	65.72%	96.88%
Minimum for the period	51.81%	59.50%
Maximum for the period	81.80%	115.18%

The Group has in place an emergency plan for liquidity risk management in unusual circumstances, considering various scenarios, which may affect the level of liquidity of the Group. 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 is confident that its sources of capital can be available at any time. Depending on the escalation of the situation created by the pandemic COVID -19 and preventive measures, the Group will consider various scenarios that may affect the inflows in measuring its indicators increasing its financing through:

- Capital increase through new capital issuance (new capital injection in the Group);
- Capital growth through profit distribution of the previous period (Profit Capitalization);
- Increase through the issuance of subordinated debt.

Maturity gaps for each major currency are calculated and analyzed by the Group on a monthly basis. The tables below show an analysis of the Group's assets and liabilities as of 31 December 2019 and 31 December 2018 according to their remaining maturity.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL '000, unless otherwise stated)

38 Risk management (continued)

38.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

The table shows the liquidity situation of the Group as currently monitored by the Group's management, as at 31 December 2020. It considers the undiscounted cash flows in/out of the Group for on and off financial assets and liabilities, reflecting any earlier repayment or retention history assumptions.

	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2020						
ASSETS (Cash flow in)	34,013,338	10,454,557	46,191,343	71,590,776	71,673,877	233,923,891
Cash and cash equivalents	24,717,507	2,356,482	-	-	-	27,073,989
Restricted balances with Central Bank	5,310,236	1,930,095	6,007,583	2,363,605	-	15,611,519
Loans and advances to banks	-	-	119,777	28,655	23,173	171,605
Financial Assets measured at FVPL	-	7,757	-	-	407,407	415,164
Debt instruments at fair value through other comprehensive income	931,247	3,368,361	9,466,067	21,204,558	24,556,975	59,527,208
Debt instruments at amortised cost	1,461	2,714	68,400	10,399,754	10,948,381	21,420,710
Investment fund	-	-	-	-	2,304,584	-
Leasing	52,563	142,032	412,571	666,881	12,439	1,286,486
Loans and advances to customers	2,411,211	2,647,116	30,116,945	36,927,323	33,420,918	105,523,513
Other assets (debtors)	589,113	-	-	-	-	589,113
LIABILITIES(Cash flow out)	65,496,533	27,879,949	86,330,612	43,944,810	1,187,236	224,839,140
Deposits from bank and customers-Current account	65,496,533	27,879,949	86,330,612	43,944,810	1,187,236	224,839,140
Current account with banks	50,131,348	12,645,315	34,015,936	954	-	96,793,553
Current account with customers	1,672,124	-	-	-	-	1,672,124
Deposits from banks	48,459,224	12,645,315	34,015,936	954	-	95,121,429
Deposits from customers-Time deposits	878,001	48,259	1,638,463	220,400	-	2,785,123
Borrowing	13,312,900	15,142,071	50,616,651	39,680,069	-	118,751,691
Subordinated debt	130,883	15,164	44,444	196,503	17,545	404,539
Other liabilities (suppliers)	865,491	29,140	15,118	3,846,884	1,169,691	5,926,324
TOTAL GAP ON BALANCE SHEET	177,910	-	-	-	-	177,910
Off Balance sheet (Cash flow in)	(31,483,195)	(17,425,392)	(40,139,269)	27,645,966	70,486,641	9,084,751
Off Balance sheet (Cash flow out)	(4,693,613)	-	-	-	-	(4,693,613)
TOTAL GAP OFF BALANCE SHEET	(4,693,613)	-	-	-	-	(4,693,613)
Total GAP 31 December	(36,176,808)	(17,425,392)	(40,139,269)	27,645,966	70,486,641	4,391,138
Cumulative GAP 31 December 2019	(36,176,808)	(53,602,200)	(93,741,469)	(66,095,503)	4,391,138	-

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38 Risk management (continued)

38.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2019						
ASSETS (Cash flow in)	29,232,233	12,614,200	44,816,179	57,892,554	63,820,052	208,375,218
Cash and cash equivalents	21,723,143	2,445,975	-	-	-	24,169,118
Restricted balances with Central Bank	3,614,896	2,112,457	6,642,612	1,451,744	-	13,821,709
Loans and advances to banks	-	-	104,484	60,992	24,082	189,558
Financial Assets measured at FVPL	12,119	1,179	-	453,682	246,248	713,228
Debt instruments at fair value through other comprehensive income	413,128	1,371,902	7,784,652	13,320,313	26,864,306	49,754,301
Debt instruments at amortised cost	389	2,663	16,668	7,226,182	9,342,935	16,588,837
Leasing	237	2,756	66,647	1,132,535	52,331	1,254,506
Loans and advances to customers	3,047,311	6,677,268	30,201,116	34,247,106	27,290,150	101,462,951
Other assets (debtors)	421,010	-	-	-	-	421,010
LIABILITIES(Cash flow out)	52,183,884	23,162,901	71,915,518	49,841,693	2,992,504	200,096,500
Deposits from bank and customers-Current account	39,292,158	10,036,846	25,929,315	940	-	75,259,259
Current account with banks	1,499,607	-	-	-	-	1,499,607
Current account with customers	37,792,551	10,036,846	25,929,315	940	-	73,759,652
Deposits from banks	754,426	17,073	1,491,104	241,297	-	2,503,900
Deposits from customers-Time deposits	11,680,535	13,063,688	43,440,424	47,084,977	-	115,269,624
Borrowing	259,061	-	-	-	-	259,061
Subordinated debt	49,050	45,294	1,054,675	2,514,479	2,992,504	6,656,002
Other liabilities (suppliers)	148,654	-	-	-	-	148,654
TOTAL GAP ON BALANCE SHEET	(22,951,651)	(10,548,701)	(27,099,339)	8,050,861	60,827,548	8,278,718
Off Balance sheet (Cash flow in)	-	-	-	-	-	-
Off Balance sheet (Cash flow out)	(3,405,074)	-	-	-	-	(3,405,074)
TOTAL GAP OFF BALANCE SHEET	(3,405,074)	-	-	-	-	(3,405,074)
Total GAP 31 December	(26,356,725)	(10,548,701)	(27,099,339)	8,050,861	60,827,548	4,873,644
Cumulative GAP 31 December 2019	(26,356,725)	(36,905,426)	(64,004,765)	(55,953,904)	4,873,644	-

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38 Risk management (continued)

38.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual discounted payments, and not reflecting any earlier repayment or retention history assumptions.

	< 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31 December 2020						
Deposits from bank and customers-Current account	49,794,066	10,477,379	34,015,011	-	-	94,286,456
Current account with banks	2,009,928	-	-	-	-	2,009,928
Current account with customers	47,784,138	10,477,379	34,015,011	-	-	92,276,528
Deposits from banks	878,001	48,259	343,564	841,160	220,400	2,331,384
Deposits from customers-Time deposits	13,062,427	14,438,081	49,910,837	38,189,235	922,808	116,523,388
Borrowing	864,718	41,130	195,233	4,617,741	1,235,202	6,954,024
Subordinated debt	130,883	15,164	44,444	196,503	17,545	404,539
Other liabilities (suppliers)	177,910	-	-	-	-	177,910
	64,908,005	25,020,013	84,509,089	43,844,639	2,395,955	220,677,701
31 December 2019						
Deposits from bank and customers-Current account	37,506,798	7,911,295	25,928,342	-	-	71,346,435
Current account with banks	247,561	-	-	-	-	247,561
Current account with customers	37,259,237	7,911,295	25,928,342	-	-	71,098,874
Deposits from bank	754,426	17,073	260,503	1,230,601	241,297	2,503,900
Deposits from customers-Time deposits	11,479,974	12,665,859	42,814,443	46,117,616	832,909	113,910,801
Borrowing	-	66,038	1,760,717	4,647,558	1,811,565	8,285,878
Subordinated debt	259,061	-	-	-	-	259,061
Other liabilities (suppliers)	148,654	-	-	-	-	148,654
	50,148,913	20,660,265	70,764,005	51,995,775	2,885,771	196,454,729

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(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Group manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Group manages interest rate risk by conducting reprising gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO has set limits on positions by currency. In accordance with the Group's policy, positions are monitored on a daily basis to ensure positions are maintained within established limits.

The analysis of assets and liabilities as of 31 December 2020 and 31 December 2019 by the foreign currencies in which they were denominated is as follows:

	31 December 2020				
	ALL	USD	EUR	OTHER	TOTAL
Cash and Cash equivalent	1,529,220	12,680,004	8,168,036	4,696,729	27,073,989
Restricted balances with Central Bank	5,111,300	1,466,716	9,033,503	-	15,611,519
Loans and advances to banks	29,641	55,533	86,431	-	171,605
Financial Assets measured at FVPL	195,692	19,676	199,796	-	415,164
Debt instruments at fair value through other comprehensive income	36,318,180	2,146,229	21,062,799	-	59,527,208
Debt instruments at amortized cost	10,140	-	21,410,570	-	21,420,710
Investment fund	23,253	-	-	-	23,253
Leasing	17,854	380	1,268,252	-	1,286,486
Loans and advances to customers	70,602,538	397,476	34,523,499	-	105,523,513
Other assets (debtors)	481,611	86,621	19,628	1,253	589,113
Total assets	114,319,429	16,852,635	95,772,514	4,697,982	231,642,560
Due to banks and other financial institutions	2,517,199	890,305	1,045,720	4,023	4,457,247
Due to customers	111,233,649	12,543,700	85,323,827	4,771,944	213,873,120
Borrowings	130,001	-	274,538	-	404,539
Subordinated debt	3,286,506	482,764	2,157,054	-	5,926,324
Other liabilities (suppliers)	160,011	344	17,434	121	177,910
Total liabilities	117,327,366	13,917,113	88,818,573	4,776,088	224,839,140
Net position	(3,007,937)	2,935,522	6,953,941	(78,106)	6,803,420

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(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.4 Market risk (Continued)

31 December 2019	ALL	USD	EUR	OTHER	TOTAL
Cash and Cash equivalent	1,909,719	7,260,841	10,353,435	4,645,123	24,169,118
Restricted balances with Central Bank	4,346,193	898,583	8,576,933	-	13,821,709
Loans and advances to banks	3,355	61,928	124,275	-	189,558
Financial Assets measured at FVPL	713,228	-	-	-	713,228
Investment securities	26,777,404	2,146,754	20,830,143	-	49,754,301
Debt instruments at amortized cost	-	-	16,588,837	-	16,588,837
Leasing	15,361	1,936	1,237,209	-	1,254,506
Loans and advances to customers	65,750,371	1,578,409	34,134,171	-	101,462,951
Other assets (debtors)	319,430	74,912	25,569	1,099	421,010
Total assets	99,835,061	12,023,363	91,870,572	4,646,222	208,375,218
Due to banks and other financial institutions	2,525,938	440,029	1,015,389	22,151	4,003,507
Due to customers	94,856,567	9,043,168	80,835,124	4,294,417	189,029,276
Borrowings	11,500	-	247,561	-	259,061
Subordinated debt	3,493,311	662,656	2,500,035	-	6,656,002
Other liabilities (suppliers)	148,287	20	336	11	148,654
Total liabilities	101,035,603	10,145,873	84,598,445	4,316,579	200,096,500
Net position	(1,200,542)	1,877,490	7,272,127	329,643	8,278,718

Exposure to foreign exchange risk (continued)

The table below shows the sensitivity analysis on currency risk as at 31 December 2020 and 31 December 2019 for a change of +/- (-) 100 basis points and the respective effect in pretax profit and loss. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Albanian ALL (all other variables being held constant) on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the Albanian ALL would have resulted in an equivalent but opposite impact.

Currency	31 December 2020			31 December 2019		
	Increase in basis point	Effect on pretax profit/loss	Effect on equity	Increase in basis point	Effect on pretax profit/loss	Effect on equity
EURO	+/- 100 b.p.	+/- 12,873	+/- 10,942	+/- 100 b.p.	+/- 15,844	+/-13,468
USD	+/- 100 b.p.	-/+ 3,540	-/+ 3,009	+/- 100 b.p.	-/+ 4,419	-/+ 3,757
Other	+/- 100 b.p.	+/- 353	+/- 300	+/- 100 b.p.	+/- 3,732	+/- 3,172

As there are no equity balances denominated in foreign currency (share capital paid in either USD or EUR is translated to ALL using the historical foreign exchange rate at the transaction date), the effect in equity is the same to the effect on the income statement, as at 31 December 2020 and 31 December 2019 and for the year then ended.

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(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.4 Market risk (continued)

Exposure to interest rate risk

The table below analyses the Group's interest rate risk exposure on financial assets and liabilities and interest rate gap position as at 31 December 2020 and 31 December 2019. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Not allocated	Carrying amounts
31 December 2020							
Assets							
Cash and cash equivalents	9,238,451	3,082,283	1,156,905	15,197	-	13,581,153	27,073,989
Restricted balances with Central Bank	15,611,519	-	-	-	-	-	15,611,519
Loans and advances to banks	-	-	119,777	28,655	23,173	-	171,605
Financial Assets measured at FPVL	-	7,757	-	-	407,407	-	415,164
Debt instruments at fair value through other comprehensive income	920,864	3,733,882	10,055,977	19,684,237	25,132,248	-	59,527,208
Debt instruments at amortized cost	1,461	2,714	68,400	10,399,754	10,948,381	-	21,420,710
Investment fund	-	-	-	-	-	23,253	23,253
Leasing	908	4,717	70,284	1,098,817	65,534	46,226	1,286,486
Loans and advances to customers	1,832,626	91,931,367	4,275,141	1,678,005	933,135	4,873,239	105,523,513
Other assets (debtors)	-	-	-	-	-	589,113	589,113
Total assets	27,605,829	98,762,720	15,746,484	32,904,665	37,509,878	19,112,984	231,642,560
Liabilities							
Due to banks and other financial institutions	3,003,864	48,259	1,184,724	220,400	-	-	4,457,247
Due to customers	22,026,243	20,667,963	75,769,165	63,393,578	-	32,016,171	213,873,120
Borrowing	130,001	-	-	274,538	-	-	404,539
Subordinated debt	865,491	29,140	15,118	3,846,884	1,169,691	-	5,926,324
Other liabilities (suppliers)	-	-	-	-	-	177,910	177,910
Total liabilities	26,025,599	20,745,362	76,969,007	67,735,400	1,169,691	32,194,081	224,839,140
GAP as at 31 December 2019	1,580,230	78,017,358	(61,222,523)	(34,830,735)	36,340,187	(13,081,097)	6,803,420

The amounts not allocated include exposures that are not sensitive to any interest rates.

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(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.4 Market risk (continued)

Exposure to interest rate risk (continued)

A summary of the Group's interest rate gap position as of 31 December 2019 is as follows:

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Not allocated	Carrying amounts
31 December 2019							
Assets							
Cash and cash equivalents	20,717,139	2,393,128	32,631	-	-	1,026,220	24,169,118
Restricted balances with Central Bank	13,821,709	-	-	-	-	-	13,821,709
Loans and advances to banks	132,263	10,396	-	23,005	23,894	-	189,558
Financial Assets measured at FPVL	12,119	1,179	-	453,682	246,248	-	713,228
Debt instruments at fair value through other comprehensive income	402,745	1,939,299	8,374,759	12,082,919	26,954,579	-	49,754,301
Debt instruments at amortized cost	389	2,663	16,668	7,226,182	9,342,935	-	16,588,837
Leasing	240	2,789	67,448	1,116,447	52,959	14,623	1,254,506
Loans and advances to customers	2,466,317	86,281,762	4,630,121	1,503,650	1,127,432	5,453,669	101,462,951
Other assets (debtors)	-	-	-	-	-	421,010	421,010
Total assets	37,552,921	90,631,216	13,121,627	22,405,885	37,748,047	6,915,522	208,375,218
Liabilities							
Due to banks and other financial institutions	1,742,935	528,171	1,491,104	241,297	-	-	4,003,507
Due to customers	62,324,853	13,064,628	43,660,340	46,276,600	-	23,702,855	189,029,276
Borrowing	259,061	-	-	-	-	-	259,061
Subordinated debt	49,051	45,294	1,054,675	2,514,479	2,992,503	-	6,656,002
Other liabilities (suppliers)	-	-	-	-	-	148,654	148,654
Total liabilities	64,375,900	13,638,093	46,206,119	49,032,376	2,992,503	23,851,509	200,096,500
GAP as at 31 December 2018	(26,822,979)	76,993,123	(33,084,492)	(26,626,491)	34,755,544	(16,935,987)	8,278,718

The amounts not allocated include exposures that are not sensitive to any interest rates.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.4 Market risk (continued)

Exposure to interest rate risk (continued)

The following table demonstrates the sensitivity to a possible change in interest rates (all other variables being held constant) of the Group's income statement and equity. The assumptions are for parallel shifts in the yield curve.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the financial assets and financial liabilities held at the end of the year. The sensitivity of equity is calculated by revaluing assets and liabilities, considering the duration gap at 31 December for the effects of the assumed changes in interest rates.

	31 December 2020			31 December 2019	
	Increase/(Decrease) in basis points	Sensitivity of profit or loss	Sensitivity of equity	Sensitivity of profit or loss	Sensitivity of equity
ALL	+100/ (100)	+/-303,135	+/-68,115	+/-213,572	+/-281,847
USD	+100/ (100)	+/-44,863	-/+12,934	+/-13,470	+/-50,595
EURO	+100/ (100)	+/-153,205	-/+1,530,900	+/-15,715	-/+1,549,487

The average interest rates on assets and liabilities for the period as at 31 December 2020 and 31 December 2019 are as follows:

Currency	31 December 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
ALL	4.74%	1.28%	5.37%	1.52%
USD	0.30%	0.56%	2.19%	0.86%
EUR	2.50%	0.36%	2.40%	0.46%

38.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

38.6 Capital management

Regulatory capital

The Group monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Central Bank ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Groups in the Republic of Albania".

The Group's regulatory capital is analyzed into two categories:

1. Base capital, comprising ordinary share capital; premiums of emissions and mergers; retained earnings; less unpaid share capital; debit revaluation differences included in equity for regulatory reporting purposes, which reflect the changes of the historical currency exchange rates compared to the year-end exchange rates when the equity is paid in currencies other than the reporting currency; and intangible assets.
2. Additional capital, which includes subordinated liabilities, general reserves and other regulatory adjustments. Risk-weighted assets and off balance-sheet items are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance-sheet exposures.

The Group recognizes the need to maintain a balance between the higher returns that might be possible with higher risk weighted investments and the requirements for capital adequacy ratio higher than 14% which is the minimum capital adequacy ratio required by the regulator.

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. As at 31 December 2020, the CAR is 14.99% (31 December 2019: 15.20%).

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(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.6 Capital management (continued)

The Group's regulatory capital is determined in accordance with regulations and accounting policies of the Albanian Central Bank which are different from IFRS accounting policies. One of the most significant differences relates to regulatory loan provisions that do not take into account any cash flows from execution of collaterals held as security. This policy has the most significant impact over loss provisions and equity.

The banks regulatory capital is calculated based on accounting policies and regulation of the Bank of Albania. The differences between the regulatory capital and IFRS capital are as follows.

	31 December 2020	31 December 2019
Equity, as per IFRS	18,535,243	17,634,148
Difference in revaluation reserve from FVOCI assets	(957,133)	(1,121,470)
Translation reserve	(901,124)	(834,698)
Difference in accumulated retained earnings	596,278	301,107
Bank of Albania equity	17,273,264	15,979,087

The translation reserve arises because capital treated as monetary item by accounting policies of Bank of Albania. Differences in accumulated retaining earnings arises primary due to different loan provision regulations.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is also dependent upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Group Credit Committee or ALCO as appropriate.

38.7 Fair value disclosures

Fair value estimates are based on existing statement of financial position financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Due from banks - Due from banks include inter-bank placements and items in the course of collection. As deposits are short term and at floating rates their fair value is considered to approximate their carrying amount.

Investment securities - Treasury bills and Government bonds are interest-bearing assets available for sale. The fair value has been estimated using a discounted cash flow model based on a current market yield curve appropriate for the remaining term to maturity as per the latest auction price as declared by Bank of Albania for similar investment securities. For the investments is used a level 2 input in the fair value hierarchy.

Loans and advances to customers - Loans and advances are net of allowances for impairment. The majority of the loan portfolio is subject to reprising within a year, by changing the base rate. The fair value is calculated using the cash flow of the payments for their remaining maturity discounted with an average market interest rate. For the investments is used a level 2 input in the fair value hierarchy.

Deposits from banks - The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Deposits from customers and Subordinated liabilities - Because no active market exists for these instruments, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity as per the latest market rate for deposits with similar maturity and currency. For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. For the deposits and subordinated liabilities is used a level 3 input in the fair value hierarchy.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.7 Fair value disclosures (continued)

Since 31 December 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity markets have experienced significant volatility and weakness.

Since 2017, the Group considers in its internal capital adequacy assessment the stress scenario in calculating the capital demand for market risk related to its portfolio of investments, majority of which is measured at fair value to other comprehensive income and it has a direct impact on capital. Unrealized losses can be converted into realized losses, in the case of part or all of the portfolio, will be classified in the tradable portfolio or sold potentially in the market.

This risk, calculated for the tradable book, includes two distinct components:

- The overall risk, which represents the risk of losses caused by a general and unfavourable trend of market capitalization prices (for example, for debt securities this risk is related to unfavourable changes in interest rates, meanwhile that for equity securities is associated with an unfavourable market movement itself); and
- The specific risk, which represents the risk of losses caused by unfavourable price volatility of financial instruments, caused by factors related to the issuer's situation.

The Group assesses that the level of available capital covers the demand for capital that may derive as a result of unfavourable market conditions of the prices of these investments.

The Group in its investment policy stipulates that the Investment portfolio will be managed in order to maximize revenue within certain parameters and limits. The Group has a series of limits "Investment Limits in Securities" to monitor at all times investments in securities. As defined in the policy, the Group diversifies counterparties to make investments and selects counterparties with a high quality of credit.

Credins Bank is following with priority the movements of securities prices and the factors that affect their volatility, such as changes in the ratings of securities ratings, macroeconomic data and is monitoring the volatile situation created by COVID-19, to reduce the negative impact of significant yield growth, by diversifying its portfolio or using derivative instruments to protect against price movements.

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.7 Fair value disclosures (continued)

	FVPL (mandatory)	FVOCI	Amortized cost	Total carrying amount	Fair value
31 December 2020					
Cash and cash equivalents	-	-	27,073,989	27,073,989	27,073,989
Restricted Balances with Central Bank	-	-	15,611,519	15,611,519	15,611,519
Loans and advances to banks	-	-	171,605	171,605	171,605
Financial assets measured at FVPL	415,164	-	-	415,164	415,164
Investment in securities AFS	-	59,527,208	-	59,527,208	59,527,208
Investment in securities HTM	-	-	21,420,710	21,420,710	21,420,710
Investments fond	23,253	-	-	23,253	23,253
Leasing	-	-	1,286,486	1,286,486	1,195,247
Loans and advances to customers	-	-	105,523,513	105,523,513	90,708,311
Other assets (debtors)	-	-	589,113	589,113	589,113
Due to banks and other financial institutions	-	-	4,457,247	4,457,247	4,457,247
Due to customers	-	-	213,873,120	213,873,120	212,331,523
Borrowing	-	-	404,539	404,539	248,712
Subordinated liabilities	-	-	5,926,324	5,926,324	5,924,158
Other liabilities (suppliers)	-	-	177,910	177,910	177,910

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL'000, unless otherwise stated)

38 Risk management (continued)

38.7 Fair value disclosures (continued)

	FVPL (mandatory)	FVOCI	Amortized cost	Total carrying amount	Fair value
31 December 2019					
Cash and cash equivalents	-	-	24,169,118	24,169,118	24,169,118
Restricted Balances with Central Bank	-	-	13,821,709	13,821,709	13,821,709
Loans and advances to banks	-	-	189,558	189,558	189,558
Financial assets measured at FVPL	713,228	-	-	713,228	713,228
Investment in securities	-	49,754,301	-	49,754,301	49,754,301
Debt instruments at amortized cost	-	-	16,588,837	16,588,837	16,588,837
Leasing	-	-	1,254,506	1,254,506	1,106,507
Loans and advances to customers	-	-	101,462,951	101,462,951	88,804,007
Other assets (debtors)	-	-	421,010	421,010	421,010
Due to banks and other financial institutions	-	-	4,003,507	4,003,507	4,003,507
Due to customers	-	-	189,029,276	189,029,276	187,154,393
Borrowing	-	-	259,061	259,061	247,561
Subordinated liabilities	-	-	6,656,002	6,656,002	6,937,357
Other liabilities (suppliers)	-	-	148,654	148,654	148,654

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Notes to the consolidated financial statements for the year ended 31 December 2020

(Amounts in ALL '000, unless otherwise stated)

38 Risk management (continued)

38.7 Fair value disclosures (continued)

The following tables set out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2020 and 31 December 2019:

	Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value
31 December 2020					
Cash and cash equivalents	27,073,989	27,073,989	-	-	27,073,989
Restricted Balances with Central Bank	15,611,519	15,611,519	-	-	15,611,519
Loans and advances to banks	171,605	171,605	-	-	171,605
Financial assets measured at FVPL	415,164	-	415,164	-	415,164
Investment in securities AFS	59,527,208	21,474,049	38,053,159	-	59,527,208
Investment in securities HTM	21,420,710	21,420,710	-	-	21,420,710
Investment fund	23,253	23,253	-	-	23,253
Leasing	1,286,486	-	-	1,195,247	1,195,247
Loans and advances to customers	105,523,513	-	-	90,708,311	90,708,311
Other assets (debtors)	589,113	-	-	589,113	589,113
Due to banks and other financial institutions	4,457,247	-	-	4,457,247	4,457,247
Due to customers	213,873,120	-	-	212,331,523	212,331,523
Borrowing	404,540	-	-	248,712	248,712
Subordinated liabilities	5,926,324	-	-	5,924,158	5,924,158
Other liabilities (suppliers)	177,910	-	-	177,910	177,910

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(Amounts in ALL '000, unless otherwise stated)

38 Risk management (continued)

38.7 Fair value disclosures (continued)

	Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value
31 December 2019					
Cash and cash equivalents	24,169,118	24,169,118	-	-	24,169,118
Restricted Balances with Central Bank	13,821,709	13,821,709	-	-	13,821,709
Loans and advances to banks	189,558	189,558	-	-	189,558
Financial assets measured at FVPL	713,228	-	713,228	-	713,228
Investment in securities	49,754,301	25,374,693	24,379,608	-	49,754,301
Debt instruments at amortized cost	16,588,837	16,588,837	-	-	16,588,837
Leasing	1,254,506	-	-	1,106,507	1,106,507
Loans and advances to customers	101,462,951	-	-	88,804,007	88,804,007
Other assets (debtors)	421,010	-	-	421,010	421,010
Due to banks and other financial institutions	4,003,507	-	-	4,003,507	4,003,507
Due to customers	189,029,276	-	-	187,154,393	187,154,393
Borrowing	259,061	-	-	247,561	247,561
Subordinated liabilities	6,656,002	-	-	6,937,357	6,937,357
Other liabilities (suppliers)	148,654	-	-	148,654	148,654



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