

**United Bank of Albania Sh.a.
Independent Auditor's Report
And Financial Statements as at and
For the year ended December 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of United Bank of Albania Sha,

Opinion

We have audited the financial statements of United Bank of Albania Sha (“the Bank”), which comprise the balance sheet as at December 31, 2020, and income statement, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the “Methodology of Reporting and Financial Content Report” according to Article No. 47 Law No. 9662 dated December 18, 2006 “On Banks in the Republic of Albania”, “Law on Banks” updated.

Basis for Opinion

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

Basis of Accounting and Restriction on Use and Distribution

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared with the objective to assist the Bank to comply with the requirements of the “Law on Banks” as referred in the Opinion paragraph above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Shareholders and Management of the Bank and the Bank of Albania and should not be distributed to or used by parties other than those. Our opinion is not modified in respect of this matter

Emphasis of matter

We draw attention to Note 3 and 27 to the financial statements describing management’s evaluation of the actual position of the Bank. The Bank has significant accumulated losses in the amount of ALL 410,846 thousand for the year end December 31, 2020 (2019: 352,720 thousand ALL). Subsequent to year end reporting date, on 8 July 2021, the Bank has signed a sale agreement with Eurosig sh.a., by which the latter has acquired additional 30% of the share capital of the Bank and obtained control through its ability to cast a majority of votes in the general meeting of Shareholders. On 29 July 2021, the new Shareholder, has committed through a support letter, to provide financial support to the Bank for a period of at least 12 months from the reporting date. Our opinion is not modified in respect of this matter.

Other matter

The financial statements of the Bank as at and for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 5, 2020.

Other matter (continued)

The Bank has prepared financial statements for the year ended December 31, 2020 in accordance with International Financial Reporting Standards on which we issued a separate auditor's report to the Shareholders of the Bank dated September 29, 2021.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report prepared by Management of the Bank in accordance with Article 53 of Law no. 9662, dated 18 December 2006 "On Banks in the Republic of Albania", amended and with Articles 17 and 19 of Law no. 25/2018 "On accounting and financial statements", but does not include the financial statements and the auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance..

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the "Methodology of Reporting and Financial Content Report" according to Article No. 47 Law No. 9662 dated December 18, 2006 "On Banks in the Republic of Albania", "Law on Banks" updated, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Deloitte Audit Albania's sign.

Deloitte Audit Albania Shpk
Rruga Faik Konica", Ndërtesa Nr.6, Hyrja Nr.7, 1010,
Tirana, Albania
Identification number (NUIS): L41709002H



Enida Cara
Engagement Partner
Statutory Auditor



Tirana, Albania
September 29, 2021

United Bank of Albania Sh.a.

Balance sheet

Amounts in Lek'000

| | Note | As at December 31, 2020 | As at December 31, 2019 |
|--|------|-------------------------------|----------------------------|
| Assets | | | |
| Cash and balances with Central Bank | 5 | 1,232,928 | 1,233,258 |
| Due from banks and other financial institutions | 6 | 2,138,849 | 1,653,291 |
| Due from financing activities – Murabaha | 7 | 5,934,489 | 5,454,116 |
| Fixed assets | 8 | 192,055 | 211,136 |
| Repossessed Assets | 9 | 186,024 | 196,505 |
| Other assets | 10 | 21,630 | 16,713 |
| Total assets | | 9,705,976 | 8,765,019 |
| Liabilities and shareholders' funds | | | |
| Liabilities | | | |
| Due to banks and financial institutions | 11 | 991,465 | 759,756 |
| Due to customers | 12 | 7,490,746 | 6,685,137 |
| Statistical provision | 7 | 71,202 | 66,856 |
| Other provision | 13 | 24,415 | 17,971 |
| Other liabilities | 13 | 49,959 | 59,037 |
| Total liabilities | | 8,627,787 | 7,588,754 |
| Shareholders' funds | | | |
| Registered share capital | 14 | 1,876,896 | 1,762,717 |
| Translation reserve | 14 | (450,658) | (334,799) |
| Reserves | 14 | 159,193 | 159,193 |
| Accumulated losses | | (410,848) | (352,720) |
| Loss for the year | | (96,395) | (58,126) |
| Total shareholders' funds | | 1,078,188 | 1,176,265 |
| Total liabilities and shareholders' funds | | 9,705,976 | 8,765,019 |

The financial statements were authorized for release by the Board of Directors and signed on September 28, 2021 in its behalf by:


Amel Kovacevic
General Director




Ilir Cekiri
Executive Director

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 38.

United Bank of Albania Sh.a.

Profit or Loss statement

Amounts in Lek'000

| | Note | Year ended December31, 2020 | Year ended December31, 2019 |
|--|-----------|--------------------------------|--------------------------------|
| Income from financial assets | | | |
| Income from placements with banks and other financial institutions | | 9,407 | 23,129 |
| Income from financing activity | | 298,155 | 270,737 |
| | 15 | 307,562 | 293,866 |
| Other income | | | |
| Income from bank commissions, net | 16 | 75,966 | 64,224 |
| Foreign exchange gain, net | 20 | 2,644 | 6,433 |
| Other income | | 2,896 | 1,204 |
| | | 81,505 | 71,861 |
| Total income | | 389,067 | 365,727 |
| Customers' share of profit | 17 | (116,939) | (94,279) |
| Net income | | 272,128 | 271,448 |
| Release of provisions for losses from financing activities | 7 | (67,076) | (12,758) |
| Statistical provisions movement | 7 | 5,122 | (9,031) |
| Impairment loss from repossessed assets | 9 | (27,934) | (37,622) |
| Other impairment | | (10,166) | (15,308) |
| Depreciation | 8 | (24,785) | (23,036) |
| Personnel expenses | 18 | (115,885) | (107,792) |
| Other administrative expenses | 19 | (127,799) | (124,027) |
| Total operating expenses | | (368,523) | (329,574) |
| Loss before tax | | (96,395) | (58,126) |
| Current income tax | 21 | - | - |
| Loss for the year | | (96,395) | (58,126) |

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 38.

United Bank of Albania Sh.a.

Statement of cash flows

Amounts in Lek'000

| | Note | Year ended December31, 2020 | Year ended December31, 2019 |
|--|-----------|--------------------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Loss before tax | | (96,395) | (58,126) |
| <i>Adjustments for non-cash items:</i> | | | |
| Depreciation | | 24,785 | 23,036 |
| Loss from disposals | | 283 | 50,328 |
| Change in provisions for losses and statistical provision | | 61,954 | 21,789 |
| Translation reserve effect | | (115,860) | 10,777 |
| Change in provision on investment funds | | 10,481 | 2,602 |
| Impact of foreign exchange in cash and cash equivalents | | - | - |
| Income from financial assets | | (307,562) | (293,866) |
| Customers' share of profit | | 116,939 | 94,279 |
| | | (305,375) | (149,181) |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Increase in due from financing activities | | (508,451) | (778,379) |
| (Increase)/Decrease in other assets | | (4,917) | 92,940 |
| (Increase)/Decrease in due from banks | | (78,293) | 12,678 |
| Increase in due to customers | | 798,789 | 546,552 |
| Increase/(Decrease) in due to banks | | 231,709 | (260,393) |
| (Decrease)/Increase in other liabilities | | (2,634) | 59,796 |
| Income from financial assets received | | 278,035 | 279,104 |
| Customers' share of profit paid | | (110,035) | (72,295) |
| Net cash (used in)/from operating activities | | 604,203 | (119,997) |
| Cash flows from investing activities | | | |
| Purchases of fixed assets, net of disposals | | (5,987) | (68,392) |
| Net cash used in investing activities | | (5,987) | (68,392) |
| Cash flows from financing activities | | | |
| Change in financing activities | | 114,180 | - |
| Net cash used in financing activities | | 114,180 | - |
| Net increase/(decrease)/ in cash and cash equivalents | | 407,021 | (337,570) |
| Impact of foreign exchange in cash and cash equivalents | | - | (23) |
| Cash and cash equivalents at beginning of the year | | 2,331,477 | 2,669,070 |
| Cash and cash equivalents at the end of the year | 22 | 2,738,498 | 2,331,477 |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

United Bank of Albania Sh.a.

Statement of changes in equity

Amounts in Lek'000

| | Share Capital | Translation Reserve | Statutory Reserve | Accumulated losses | Total |
|-------------------------------------|------------------|------------------------|----------------------|-----------------------|------------------|
| Balance at January 1, 2019 | 1,762,717 | (345,576) | 159,193 | (352,723) | 1,223,611 |
| Change in translation reserve | - | 10,777 | - | - | 10,777 |
| Loss for the year | - | - | - | (58,126) | (58,126) |
| Balance at December 31, 2019 | 1,762,717 | (334,799) | 159,193 | (410,849) | 1,176,262 |
| Increase of share capital | 114,179 | - | - | - | 114,179 |
| Change in translation reserve | - | (115,860) | - | - | (115,860) |
| Loss for the year | - | - | - | (96,395) | (96,395) |
| Balance at December 31, 2020 | 1,876,896 | (450,659) | 159,193 | (507,244) | 1,078,188 |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 38.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

1. Introduction

(a) General

United Bank of Albania (hereinafter “the Bank” or “UBA”) was established in Albania to carry out banking operations in accordance with Albanian laws. Based on its Articles of Association, the Bank follows the Sharia Principles. The Bank’s activities include acting as manager, on a trustee basis, of funds invested in accordance with Islamic laws and principles. The Bank is subject to Law no. 9662 “On Banks on the Republic of Albania”, dated 18 December 2006 and is under the supervision of the Bank of Albania.

On 5 November 1992, the Bank received approval from the Bank of Albania for carrying out banking operations. The registration procedures were completed on 1 July 1994, the incorporation date. On 11 January 1999, pursuant to the Decision No.165, dated 11 December 1998 of the Bank of Albania, the Bank obtained the license, “For continuing the banking activity in the Republic of Albania”, in accordance with Law No.8365, dated 2 July 1998, “On banks in the Republic of Albania”.

The Head Office of the Bank is located in Tirana. Currently, the Bank has an Albanian network of 4 branches located in Tirana, Shkodra, Fier and Durres and 2 agencies located in Tirana. As at December 31, 2020, the Bank employs 83 staff (2019: 75 staff). The Bank’s registered office is at Dritan Hoxha street, Building No. 11, Tirana, Albania.

As at 31 December 2020 and 2019, the immediate and ultimate parent company of the Bank is Islamic Development Bank Jeddah holding 72.2% of the shares.

The registered shareholding structure was as follows:

| | |
|---------------------------------|--------|
| Islamic Development Bank Jeddah | 72.20% |
| EUROSIG SH.A | 21.02% |
| Ithmaar Bank B.S.C. | 4.30% |
| Other investors | 2.48% |

As at 31 December 2020, the Board of Directors and Audit Committee of the Bank is composed by the following members:

| | | |
|--------------------|-------------------|----------|
| Board of Directors | Amer Bukvic | Chairman |
| | Emina Sisic | Member |
| | Mohamed Al-Midani | Member |
| | Areef Suleman | Member |
| | Mateo Spaho | Member |
| Audit Committee | Emina Šišić | Chairman |
| | Mohamad Al-Midani | Member |
| | Orjana Kalaja | Member |

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with the “Reporting methodology and content of financial reporting” (“Financial Reporting Methodology” or “FRM”) approved from the Supervisory Council of Bank of Albania on December 24, 2008. The FRM was approved for regulatory purposes, pursuant to the Article 47 of the Law No. 9662, dated 18 December 2006 “On Banks in the Republic of Albania” (“Banking Law”).

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

2. Basis of preparation (continued)

(b) Basis of preparation

The financial statements are presented in Albanian Lek, rounded to the nearest thousand unless otherwise stated, and are prepared on the historic cost basis.

(c) Comparative information

The comparative information is presented consistently applying the Bank's accounting policies, when necessary, comparative figures have been presented.

3. Going concern

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

In terms of financial performance, The Bank has suffered accumulated losses in the past 3 years respectively of Lek 410,846,000, 352,723,000, 369,886,000 as at December 31,2020, 2019 and 2018. The Bank's CAR (capital adequacy ratio) at 31 December 2020 and 2019 was 13.87 % and 16.06 % respectively while the required minimum CAR for banks in Albania is 12%.

In addition to above, in terms of financial market overview, on 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Albanian Government authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, salary payments to those terminated employment enforceable by employers, payment holidays and limitations on business activity, including closures. The above measures were gradually relaxed during 2020 and 2021. These measures have, among other things, severely restricted economic activity in Albania and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Bank, as well as the Albanian and global economy for an unknown period of time.

Two moratoriums granted by Bank of Albania respectively extension up to 1 June 2020 and thereafter up to 31 August 2020, dated on 17.03.2020 and 28.05.2020 "The postponement of the payment of loan instalments for business entities and individuals". Based in the Civil Code and the regulations of the Bank of Albania, the parties has agreed on the rescheduling of loans to businesses and individuals affected by the pandemic

Public Guarantee limit granted by Ministry of Finance to United Bank of Albania for the salaries of customers, the activity of which is affected by the decisions of the Council of Ministers, in the framework of managing the situation created by Covid-19". The Sovereign Guarantee Line was issued in favour of each commercial bank, from which LEK 250,000,000 was distributed to United Bank of Albania sha.

Management of the Bank has taken necessary measures to ensure sustainability of the Bank's operations and support its customers and employees:

- Maintenance of operations (closed offices, 60 % of employees working from home, etc.);
- Offering payment holidays on consumer loans of up to 6 months and reduction of interest rate on credit card facilities;
- Customer support programmes implemented (including those sponsored by the government) and their scale (i.e.165 number of financing being restructured);

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

3. Going concern (continued)

There are no other factors that may cast uncertainties and or indicate that the Bank may not be in line with going concern principle.

Management of the Bank is taking the necessary steps to address all the above described uncertainties. As such, in February 2020, the Shareholder of the Bank injected an additional amount of capital of USD 999,992 equivalent to Lek 114,179,140 with rate of exchange 114.18 USD/LEK.

On 8 July 2021, the Bank has signed a sale agreement with Eurosig sh.a., by which the latter has acquired an additional 30 % of the share capital of the Bank and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. On 29 July 2021 the Bank has received a letter of support by the new Shareholder, expressing its irrevocable commitment in financially supporting the Bank for a period of at least 12 months from the date of this financial statements. On August 3, 2021 based on Assembly of Shareholders meeting decision no.03, it was approved the increase of the capital of the Bank with new injection in cash to occur within year ended December 31,2021. Please refer to note 32 for details.

4. Significant accounting policies

(a) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise cash balances on hand and cash deposited at Bank of Albania, except for the compulsory reserve, and short-term highly liquid investments with contractual maturities of three months or less. Cash on hand and balances with Bank of Albania are carried at amortized cost.

(b) Due from financing activities -Murabaha

Murabaha and other receivables are stated in the balance sheet net of a provision for specific losses. Murabaha and other receivable are similar to loans and advances to customers. Provisions created for possible losses on loans classified as standard and past due, or special mention are classified as statistical provisions on the liabilities side of the balance sheet.

The provisions are created in accordance with the credit risk policy of the Bank, which is in accordance with the laws in force (Law on Banks and Regulation of the Bank of Albania "On Credit Risk Management" approved by Decision No. 52, dated July 14, 2004 amended, through decision No.101 on December 27, 2006, amended through decision No.59 and 61 on 29 August 2008, amended through decision no. 62, dated on September 14, 2011 "On credit risk administration", amended by Decision 26 dated 01.04.2015, Decision 50 dated 30.03.2016 and last amended by Decision 13 dated 28.05.2020 and Decision 5 dated 13.01.2021 of the Supervisory Council of the Bank of Albania).

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

4. Significant accounting policies (continued)

The regulation requires the Bank to classify loans into five risk categories. The Bank classifies its loans in the following categories adopting the following loan loss provision rates:

| Risk category | Days in arrears for loans | Days in arrears for overdrafts | Loss Provision |
|----------------------|----------------------------------|---------------------------------------|-----------------------|
| Standard | up to 30 days | up to 30 days | 1-10% ¹ |
| Special mention | 31 to 90 days | 31 to 60 days | 5-10% ² |
| Substandard | 91 to 180 days | 61 to 90 days | 20% |
| Doubtful | 181 to 365 days | 91 to 180 days | 50% |
| Loss | Over 365 days | Over 181 days | 100% |

According to regulation in force, when the loan before restructuring is classified in categories "standard" or "special mention" if restructured for the first time have to maintain the same class and to create a reserve fund to cover possible losses from loans, at a rate not less than 10 (ten) percent for principal and interest.

For exposures classified as non-performing under Substandard and Doubtful risk category, the minimum loan loss provision is 20% and 50% respectively.

In any case the Bank shall write off the loans from the balance sheet, no later than two years after their classifications as "loss loans". During this period, the Bank shall take all the measures to meet the terms laid down in the tax legislation on the loan write offs from the balance sheet.

Provisions for loans classified as substandard, doubtful and loss, are presented under assets in the balance sheet, reflecting the net balance of the loan portfolio. Provisions created for possible losses on loans classified as standard and special mention are classified as a statistical provision in the liability side of the balance sheet.

Balances due from financing activities are reported net of provisions for specific losses for balances classified as substandard, doubtful and lost. Provisions created for possible losses on balances classified as standard and special mention are classified as statistical provisions on the liabilities side of the balance sheet. The Bank does not accrue finance income for non-performing balances.

¹ The Bank applies 10% of loan loss provision on restructured exposures, and a minimum of 1% for "Standard" ones

² The Bank applies 10% of loan loss provision on restructured exposures, and a minimum of 5% for "Special Mention" ones

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

4. Significant accounting policies (continued)

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation, which is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for the current and comparative period are as follows:

- Buildings 20 years
- Motor vehicles 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years
- Furniture and fixtures 5 years
- Intangible assets 4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Leasehold improvements

Leasehold improvements are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the period of the lease. The carrying value of leasehold improvements is included in other assets.

(e) Repossessed Assets

Repossessed assets represent the collaterals taken into banks' ownership during the process of execution of the non-performing loans. The assets are recorded with the lower of carrying amount to fair value less cost of sell. The Bank aims to sell the collaterals within the year of being repossessed. In case the immovable or movable assets acquired through legal process are not being sold within the first year of their obtainment, the Bank creates reserve funds for loss covering.

The reserve funds are created in accordance with the regulation in force (Regulation of the Bank of Albania "On Credit Risk Management from Banks and Branches of Foreign Banks" approved by Decision No.62, dated September 14, 2011 amended by the Decision No.27, dated 27.03.2013, amended by decision no.22, dated 27.02.2014, amended by decision no.26, dated 01.04.2015 and amended by decision no. 50, dated 30.03.2016 of the Supervisory Council of the Bank of Albania).

The regulation requires the reserve funds to be created within a period no longer than 7 (seven) years from their acquirement date (their taking into ownership at the end of the forced execution process for unsolved credits) at no less that the rate in percentage of these assets accounting value, according to the following table:

| Year | Year I | Year II | Year III | Year IV | Year V | Year VI | Year VII |
|-------------------|--------|---------|----------|---------|--------|---------|----------|
| Depreciation rate | 5% | 15% | 30% | 45% | 60% | 80% | 100% |

For movable assets, the banks creates reserve funds at no less than 100% of the accounting value of the movable asset, in case they cannot sell these assets within a year from their acquirement date.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

4. Significant accounting policies (continued)

(f) Due to customers

Due to customers include special investment deposits, where the depositors instruct the Bank to invest the funds in specific investments or on predetermined terms. These deposits are invested by the Bank in its own name under the terms of specific Mudareb contracts entered into with the depositors. These special investment deposits, which are classified within due to customers, share the direct profit or losses of their respective investments once realized and do not, otherwise, share the Bank's profit or loss.

(g) Customers' share on profit

The customers' share on profit from deposits placed in the bank is allocated to the depositors in accordance with the Sharia principles through sharing profits on reinvested deposits. Payments are made to the depositors and charged to the account of customers' share in profits in accordance with the contractual maturities of the deposits. For the maintenance service provided for accounts from Mudarabah a certain fee is gained. The Profit Share allocation from Mudarabah transactions is paid and presented net of Mudarib Charge.

(h) Revenue recognition

(i) Income from banks and other financial institutions

Income from banks and other financial institutions is recognized on the accrual basis.

(ii) Murabaha contracts

Income from Murabaha contracts is recognized on the accrual basis, based on the effective interest rate. For non-performing contracts, in delay for more than 90 days no income is recognized.

(iii) Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services, brokerage services and investment advice. Fee and commission income is recognized when the corresponding service is provided.

(i) Taxation

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation at a tax on profit rate equal to 15% (2019: 15%) of the taxable income. Taxable income is calculated by adjusting the statutory result before taxes for certain income and expenditure items as required under the Albanian tax law and regulation. The statutory profit is based on the financial records kept by the Bank in accordance with International Financial Reporting Standards (IFRS) and may differ significantly from the FRM financial performance reported for regulatory purposes.

(j) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of income and expenditures. Non-monetary assets and liabilities denominated in foreign currencies are translated to measurement currency at foreign exchange rates at the dates of transactions.

Share capital is treated as a monetary item and revalued in accordance with the policy noted below. According to the Bank of Albania regulation, capital in foreign currency should be accounted for at the exchange rate on the date of the transaction on the face of the balance sheet and a "translation reserve" created in equity that represents the difference between the period end and historical Lek spot rate used to record the foreign currency share capital.

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

4. Significant accounting policies (continued)

(j) Foreign currency transactions (continued)

The applicable rate of exchange rates (LEK to foreign currency unit) for the principal currencies were as follows:

| | December 31, 2020 | December 31, 2019 |
|-----|-------------------|-------------------|
| USD | 108.84 | 108.64 |
| EUR | 123.70 | 121.77 |
| CHF | 114.46 | 112.30 |
| GBP | 137.93 | 143.00 |
| CAD | 79.14 | 83.38 |

(k) Use of estimates and judgments

The preparation of financial statements in conformity with Regulation of the Bank of Albania requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities, and disclosure of off-balance sheet at the reporting date, and the reported amounts of income and expenses during the reporting period, with respect to valuation of useful lives of assets, loan loss provisions, and provisions for risks and expenses.

5. Cash and balances with Central Bank

Cash and balances with Central Bank as at December 31, 2020 and 2019 consist of the following:

| | As at December 31, 2020 | As at December 31, 2019 |
|---|----------------------------|----------------------------|
| Cash on hand | 364,883 | 287,695 |
| Balances with Central Bank: | | |
| Current accounts | 234,683 | 390,492 |
| Compulsory reserve | 633,362 | 555,071 |
| Total balances with Central Bank | 868,044 | 945,563 |
| Total | 1,232,928 | 1,233,258 |

In accordance with Bank of Albania requirements for deposit reserves, the Bank shall maintain a minimum balance of account accounts with the Bank of Albania as a mandatory reserve. This compulsory reserve is not for daily use, however, based on applicable regulations, during the month, the Bank may use up to 70% (2019:70%) of the required reserve in Lek, ensuring that the average monthly balance of accounts with the Bank Central (current account plus required reserve) is not lower than the required reserve level. This reserve is calculated as a percentage on the Bank's customer accounts. Reserve rate is different depending on the currency and maturity of customer deposits (2019: 10% of customer deposits with an initial maturity up to 24 months). Starting from 24 July 2018, the mandatory reserve rate changed to:

- 7.5% for deposits in Lek of customers with an initial maturity of up to 12 months
- 5.0% for deposits in lek of loans with a maturity of over 12 months but up to 24 months
- 12.5% for foreign currency deposits, when the ratio of "Foreign currency deposits with total deposits" is up to 50%
- 20% for foreign currency deposits, when the ratio of "Foreign currency deposits with total deposits" is greater than 50%.

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

6. Due from banks and other financial institutions

Due from banks and other financial institutions as at December 31, 2020 and 2019 consist of the following:

| | <u>As at December 31, 2020</u> | <u>As at December 31, 2019</u> |
|--|------------------------------------|------------------------------------|
| a) By type: | | |
| Call/current accounts | 809,297 | 738,657 |
| Term investments | 1,327,356 | 914,597 |
| Accrued income | 2,196 | 37 |
| | 2,138,849 | 1,653,291 |
| b) By geographical distribution: | | |
| Resident | 748,437 | 834,306 |
| Non-resident | 1,390,412 | 818,985 |
| | 2,138,849 | 1,653,291 |
| c) By original maturity: | | |
| Less than one month | 1,982,831 | 1,650,032 |
| More than one and less than three months | | 0 |
| More than one year | 156,018 | 3,259 |
| Total | 2,138,849 | 1,653,291 |

Term investments represent funds invested by the Bank through financial institutions, acting as agents of the Bank. The agents invest the Bank's funds in instruments selected by them, including commodities and pay the profit generated as per the return estimated by them in accordance with the offer made to the Bank for every investment. Term investments are held on non-resident participation banks with contractual maturities up to 1 year and are based on Wakala or Investment agreement contracts.

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

7. Due from financing activities - Murabaha

Amounts due from financing activities represents credits extended under the Murabaha method of transacting finance. The Murabaha balances as of December 31, 2020 and 2019 are detailed as follows:

| | <u>As at December 31, 2020</u> | <u>As at December 31, 2019</u> |
|---|------------------------------------|------------------------------------|
| Short term investments | 1,187,627 | 1,346,414 |
| Medium term investments | 1,664,972 | 1,507,901 |
| Long Term Investments | 3,203,729 | 2,727,062 |
| | 6,056,328 | 5,581,377 |
| Accrued income | 68,149 | 38,622 |
| Provisions on substandard, doubtful and loss assets | (189,988) | -165,883 |
| Total | 5,934,489 | 5,454,116 |

Short term investments represent credits with a maturity of 12 months or less, and medium-term investments represent credits with a maturity from one to five years.

Movements in the provisions for substandard, doubtful and loss financing activities are as follows:

| | <u>As at December 31, 2020</u> | <u>As at December 31, 2019</u> |
|---------------------------|------------------------------------|------------------------------------|
| Balance at 1 January | 165,883 | 162,319 |
| Net reversal for the year | 60,722 | 12,758 |
| Write off | (34,390) | (13,911) |
| Foreign exchange effects | (2,227) | 4,717 |
| Total | 189,988 | 165,883 |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

7. Due from financing activities – Murabaha (continued)

Movements in the statistical provisions for standard and special mention financing activities are as follows:

| | As at December 31, 2020 | As at December 31, 2019 |
|--------------------------|----------------------------|----------------------------|
| Balance at 1 January | 66,856 | 63,745 |
| Net charge for the year | (44,759) | 9,031 |
| Foreign exchange effects | 49,105 | (5,920) |
| Total | 71,202 | 66,856 |

| Category | At December 31, 2020 | | | At December 31, 2019 | | |
|-----------------------|----------------------|------------------|------------------|----------------------|------------------|------------------|
| | Individuals | Enterprises | Total | Individuals | Enterprises | Total |
| Standard | 1,841,638 | 3,699,031 | 5,540,669 | 1,314,695 | 3,700,832 | 5,015,527 |
| Special Mention | 20,501 | 211,360 | 231,861 | 24,161 | 238,945 | 263,106 |
| Substandard | 68,758 | 40,699 | 109,457 | 75,788 | 104,102 | 179,890 |
| Doubtful | 23,472 | 141,562 | 165,034 | 31,158 | 47,870 | 79,028 |
| Lost | 71,046 | 6,198 | 77,245 | 21,433 | 61,015 | 82,448 |
| Provisions for losses | (99,782) | (90,206) | (189,988) | (56,529) | (109,354) | (165,883) |
| Total | 1,925,632 | 4,008,646 | 5,934,278 | 1,410,706 | 4,043,410 | 5,454,116 |

Provisions for loan losses relate to categories substandard, doubtful and lost. Meanwhile provision related to category standard is presented as statistical provision in other liabilities in the Balance sheet, following requirement from Bank of Albania.

Included in the Murabaha – financial receivables there are items of finance lease receivables in which the Bank is the lessor:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|-------------------|---|-------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 |
| Less than 1 year | 8,980 | 9,089 | 8,531 | 8,635 |
| Between 1 and 5 years | 38,151 | 36,926 | 36,243 | 35,080 |
| More than 5 years | 129,459 | 136,014 | 122,987 | 129,313 |
| Gross investment in finance lease receivable | 176,590 | 182,029 | 167,760 | 173,028 |
| Less unearned finance income | (23,619) | (31,352) | (22,438) | (29,784) |
| Net investment in finance leases, receivable | 152,971 | 150,677 | 145,322 | 143,244 |
| Allowance for uncollectible lease payments | (2,638) | (3,583) | 2,506 | (3,404) |
| Total | 155,069 | 147,094 | 147,828 | 139,840 |

Finance lease receivables represent executed collateral from defaulted clients which have been leased back to third party customers against an agreed schedule of repayment. Interest rate varies from 3% to 5% and have a contractual maturity from 10 to 15 years.

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

8. Fixed assets and Intangibles

Fixed assets and Intangibles as at December 31, 2020 and 2019 are detailed as follow:

| | Buildings | Office | Computers & electronic equipment | Motor Vehicles | Furniture and fixtures | Intangible assets | Fixed Assets in Process | Total |
|---------------------------------|------------------|-----------------|---|-----------------------|-------------------------------|--------------------------|--------------------------------|------------------|
| <i>Cost</i> | | | | | | | | |
| At January 1, 2019 | 282,846 | 60,365 | 58,437 | 16,315 | 21,984 | 64,530 | 1,919 | 506,396 |
| Additions | 61,491 | 6,736 | 1,318 | - | 349 | 456 | 3,265 | 73,615 |
| Disposals | - | (2,252) | (948) | - | - | - | (5,184) | (8,384) |
| At December 31, 2019 | 344,337 | 64,849 | 58,807 | 16,315 | 22,333 | 64,986 | - | 571,627 |
| Additions | - | 2,509 | 2,126 | - | 1,011 | 95 | 246 | 5,987 |
| Disposals | - | (7,552) | (1,782) | - | (2,340) | - | - | (11,674) |
| At December 31, 2020 | 344,337 | 59,806 | 59,151 | 16,315 | 21,004 | 65,081 | 246 | 565,940 |
| <i>Accumulated Depreciation</i> | | | | | | | | |
| At January 1, 2019 | (141,422) | (58,651) | (52,825) | (10,508) | (21,639) | (55,571) | - | (340,616) |
| Charge for the year | (14,142) | (1,626) | (3,801) | (1,606) | (179) | (1,682) | - | (23,036) |
| Disposals | - | 2,251 | 910 | - | - | - | - | 3,161 |
| At December 31, 2019 | (155,564) | (58,026) | (55,716) | (12,114) | (21,818) | (57,253) | - | (360,491) |
| Charge for the year | (17,216) | (2,259) | (1,960) | (1,607) | (222) | (1,521) | - | (24,785) |
| Disposals | - | 7,552 | 1,499 | - | 2,340 | - | - | 11,391 |
| At December 31, 2020 | (172,780) | (52,733) | (56,177) | (13,721) | (19,700) | (58,774) | - | (373,885) |
| <i>Carrying amount</i> | | | | | | | | |
| At January 1, 2019 | 141,424 | 1,714 | 5,612 | 5,807 | 345 | 8,959 | 1,919 | 165,780 |
| At December 31, 2019 | 188,773 | 6,823 | 3,091 | 4,201 | 515 | 7,733 | - | 211,136 |
| At December 31, 2020 | 171,557 | 7,073 | 2,974 | 2,594 | 1,304 | 6,307 | 246 | 192,055 |

Intangible assets at December 31, 2020 and 2019 represent mainly cost related to the banking software, which was implemented by the Bank in 2011. As at December 31, 2020 the historical cost of the assets which were fully depreciated was Lek 3,525 thousand (2019: Lek 17,613 thousand).

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

9. Repossessed Assets

Repossessed Assets are a consequence of the acquisitions through enforcement of security over financial receivables. The banks shall design strategies and internal plans, as well as create the appropriate structures for selling the immovable and movable assets acquired against credits' settlements.

In case they cannot sell such assets within the first year of their repossession, the bank shall create reserve funds for covering the loss. The following table shows a reconciliation from the beginning balances to the closing balances of the Bank's repossessed assets.

| | <u>As at December 31,</u> <u>2020</u> | <u>As at December 31,</u> <u>2019</u> |
|--|--|--|
| Balance at 1 January | 196,505 | 306,292 |
| Repossessed during the year | 27,630 | 1,482 |
| Sold during the year | - | (17,054) |
| Transfer to Fixed Assets | - | (61,493) |
| Depreciation charge of the year | - | (35,020) |
| Impairment of repossessed assets | (27,935) | - |
| Net changes arising from forex revaluation | (10,176) | 2,298 |
| Balance at 31 December | 186,024 | 196,505 |

The Bank has created an impairment for two properties as per independent valuation.

The depreciation charge for the year in 2019 was 35,020 thousand LEK while in 2020, following the communication of the Bank of Albania, no depreciation amount was calculated for repossessed assets.

10. Other assets

Other assets as at December 31, 2020 and 2019 are comprised as following:

| | <u>At December 31,</u> <u>2020</u> | <u>At December 31,</u> <u>2019</u> |
|--------------------|---------------------------------------|---------------------------------------|
| Prepaid expenses | 3,182 | 1,817 |
| Prepaid income tax | 13,877 | 13,877 |
| Other assets | 4,571 | 1,019 |
| Total | 21,630 | 16,713 |

11. Due to banks and financial institutions

Due to banks and financial institutions as at December 31, 2020 and 2019 are comprised as following:

| | <u>At December 31,</u> <u>2020</u> | <u>At December 31,</u> <u>2019</u> |
|----------------------------------|---------------------------------------|---------------------------------------|
| Current accounts | 54,969 | 13,670 |
| Term deposits | 924,363 | 726,559 |
| Account for guarantee | - | 9,788 |
| Accrued Customer share on profit | 12,133 | 9,739 |
| Total | 991,465 | 759,756 |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

12. Due to customers

Due to customers as at December 31, 2020 and 2019 are comprised as following:

| | At December 31, 2020 | At December 31, 2019 |
|------------------------------------|---------------------------------|---------------------------------|
| Current accounts | 1,797,020 | 1,482,818 |
| Investment deposits | 5,629,168 | 5,131,590 |
| Accrued Customers' Share on Profit | 64,558 | 57,738 |
| Other customer accounts | - | 12,991 |
| Total | 7,490,746 | 6,685,137 |

Current accounts at December 31, 2020 include a balance of Lek 36 million (2019: Lek 33 million), which represents amounts blocked by regulatory authorities or by the Bank in the previous or current year. These balances are not available for use, without prior consent of the authorities. Due to customers by type and currencies are as follows:

| | As at December 31, 2020 | As at December 31, 2019 |
|-----------------------------|------------------------------------|------------------------------------|
| Current accounts: | | |
| In USD | 359,355 | 177,738 |
| In ALL | 708,188 | 639,116 |
| In EUR | 703,588 | 649,301 |
| In GBP | 25,889 | 16,663 |
| | 1,797,020 | 1,482,818 |
| Investment deposits: | | |
| In USD | 232,825 | 247,274 |
| In EUR | 2,234,961 | 2,032,538 |
| In ALL | 3,161,381 | 2,851,778 |
| | 5,629,168 | 5,131,590 |

13. Other provision and liabilities

Other provisions and liabilities as at December 31, 2020 and 2019 are comprised as following:

| | As at December 31, 2020 | As at December 31, 2019 |
|------------------------|------------------------------------|------------------------------------|
| Accrued expenses | 4,720 | 2,706 |
| Remittances in transit | 30,540 | 52,541 |
| Due to third parties | 91 | 26 |
| Provision fund | 24,415 | 17,971 |
| Other liabilities | 14,608 | 3,764 |
| Total | 74,374 | 77,008 |

The provision fund is further detailed as follows:

| | As at December 31, 2020 | As at December 31, 2019 |
|--------------------------|------------------------------------|------------------------------------|
| Provision fund | | |
| As at January 1 | 17,971 | 12,369 |
| Movement of the year | 6,444 | 5,602 |
| As at December 31 | 24,415 | 17,971 |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

14. Shareholders' funds

Share capital

The registered share capital is Lek 1,876,896 thousand (equivalent of USD 14,143 thousand), divided into 547,421 shares with a nominal value of USD 24.01. On February 2020, Islamic Development Bank, injected an additional amount of capital of USD 999,992 equivalent to Lek 114,179,140 with rate of exchange 114.18 USD/LEK. USD 999,992. The shareholder's structure for the year ended December 31, 2020 has been disclosed in Note 1 of the financial statements.

Reserves

Reserves of LEK 159,193 thousand (2019: LEK159,193 thousand) were created pursuant to Article 8 of the Decision No. 51, dated April 22, 1999 of the Bank of Albania, which required the appropriation of 20% of the net profit for the year, Article 213 of the Law No. 7638, dated November 19, 1992 "On commercial companies" which required the appropriation of 5% of the net profit, and the Bank's Statute, which required the appropriation of 10% of net profit for the year.

Nature and purpose of the reserves is as explained below:

- (i) The legal reserve was established according to the provisions of the Commercial Law requiring the creation of reserves of 5% of the Bank's net income after deduction of accumulated losses from previous years, until the balance of this reserve reaches 10% of the Bank's share capital. In terms of financial performance, The Bank has suffered accumulated losses in the past 3 years respectively of Lek 410,846,000, 352,723,000, 369,886,000 as at December 31,2020, 2019 and 2018. The Bank's CAR (capital adequacy ratio) at 31 December 2020 and 2019 was 13.87 % and 16.06 % respectively while the required minimum CAR for banks in Albania is 12%.
- (ii) The regulatory reserve was established according to the Bank of Albania regulation "On the Bank's Regulatory Capital", no.69, dated 18 December 2014. Banks and branches of foreign banks are required to create reserves of 1.25% to 2% of total risk-weighted assets, by appropriating one fifth of the profit after taxes and before payment of dividends, until the balance on this measure reaches at least 1.25% of total risk-weighted assets.

Translation reserve

As at December 31, 2020, the paid-up capital of the Bank amounts to USD 14,143 thousand (2017: USD 13,144 thousand). The equivalent amount in Lek, translated with the exchange rate at the end of the year is Lek 1,417,141 thousand (2019: Lek 1,460,252 thousand), while the equivalent amount in Lek, translated with the historical exchange rate is Lek 1,762,717 thousand (2019: Lek 1,762,717 thousand).

Share capital movement

| | As at December 31, 2020 | As at December 31, 2019 |
|------------------------------|----------------------------|----------------------------|
| As at January 1 | 1,427,918 | 1,417,141 |
| Capital additions | 114,179 | - |
| Foreign exchange revaluation | (115,859) | 10,777 |
| As at December 31 | 1,426,238 | 1,427,918 |

The negative translation reserve of Lek 450,658 thousand (2019: Lek 334,799 thousand) represents the difference between the translation of the capital in Lek with the historical exchange rate and the translation using the exchange rate at the end of the year. The movement in the translation reserve for the year is recognized as foreign exchange gain/(loss), net in the income statement (see note 20).

| | As at December 31, 2020 | As at December 31, 2019 |
|---------------------------------|----------------------------|----------------------------|
| Share Capital – Historical cost | 1,876,896 | 1,762,717 |
| Share Capital – Revalued | 1,426,238 | 1,427,918 |
| Translation Reserve | (450,658) | (334,799) |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

15. Income from financial assets

Income from financial assets for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Income from Murabaha operation | 293,670 | 266,174 |
| Income from leasing activity | 4,485 | 4,563 |
| Income from banks and other financial institutions | 9,407 | 23,129 |
| Total | 307,562 | 293,866 |

16. Net fee and commission income

Net fee and commission income for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Fee and commission income | 79,426 | 67,013 |
| Fee and commission expense | (3,460) | (2,789) |
| Fee and commission income, net | 75,966 | 64,224 |
| | Year ended December 31, 2020 | Year ended December 31, 2019 |
| Disbursement and maintenance fee | 62,587 | 48,408 |
| Transfers fee | 12,443 | 11,629 |
| Tax declarations fee | 3,115 | 5,532 |
| Cards | 613 | 392 |
| Other | 668 | 1,052 |
| Total fee and commission income | 79,426 | 67,013 |
| Banking services fee | (2,664) | (2,135) |
| Other | (796) | (654) |
| Total fee and commission expense | (3,460) | (2,789) |
| Net fee and commission income | 75,966 | 64,224 |

The Bank did not disclose the value of any open performance obligations at December 31, 2020, as its contracts with customers generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year, or provisions that allow the Bank to recognize revenue at the amount it has the right to invoice.

17. Customer's share on profit

Customer's share on profit for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Due to banks and financial institutions | 1,884 | 1,314 |
| Borrowings from financial institutions | - | 184 |
| Due to customers | 115,056 | 92,781 |
| Total | 116,939 | 94,279 |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

18. Personnel expenses

Personnel expenses for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|-------------------------|---|---|
| Expatriate staff | 17,723 | 15,794 |
| Local employees | 85,758 | 80,032 |
| Social insurance | 12,404 | 11,712 |
| Other costs and bonuses | - | 254 |
| Total | 115,885 | 107,792 |

19. Other administrative expenses

Other administrative expenses for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Office expenses | 27,905 | 25,075 |
| Deposit insurance | 21,168 | 18,756 |
| Security expenses | 13,329 | 13,271 |
| Rent expenses | 13,035 | 14,178 |
| Legal, consultancy and audit fees | 12,973 | 7,644 |
| Software maintenance | 11,750 | 10,818 |
| Swift, Reuters and on-line connections | 10,116 | 9,746 |
| Advertising and representation expenses | 5,568 | 7,665 |
| Bank of Albania Emergency Fund | 3,822 | 3,712 |
| Board of Directors and Audit Committee | 3,509 | 6,931 |
| Fees, taxes and duties | 2,528 | 2,764 |
| Telephone and mail | 1,598 | 1,850 |
| Travel and transportation | 454 | 1,606 |
| Other expenses | 43 | 11 |
| Total | 127,799 | 124,027 |

20. Foreign exchange gain, net

Foreign exchange gain ,net for the year ended December 31, 2020 and 2019 is comprised as below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|-----------------------|---|---|
| Foreign exchange gain | 19,095 | 15,333 |
| Foreign exchange loss | (16,451) | (12,028) |
| Total | 2,644 | 3,265 |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

21. Taxation

Profit before tax is based on law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements" and is calculated according to International Financial Reporting Standards (IFRS). Based on the instruction no. 5, dated 30.01.2006 "On Profit Tax", the profit before tax is corrected with the non-deductible expenses and the differences calculated from the method of depreciation of fixed assets.

The reconciliation between the accounting result and the fiscal result for the closed year on 31 December 2020 and 31 December 2019 is detailed below:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|------------------|------------------|
| Current income tax expense | - | - |
| Deferred tax income expense/(benefit) | - | - |
| Total | - | - |

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. Income tax in Albania is assessed at the rate of 15% (2019: 15%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate for the year ended December 31, 2020 and 2019 is detailed as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Loss before tax | (96,395) | (58,126) |
| Differences between FRM and statutory results | (260,259) | 66,904 |
| Income tax expense at 15% | (53,498) | 1,317 |
| Non-deductible expenses | 49,140 | 30,400 |
| Tax impact of non-deductible expenses | 7,371 | 4,560 |
| Unrecognized tax losses/(profit) | 46,127 | (5,877) |
| Taxable profit/(loss) | (307,514) | 39,178 |
| Calculated tax expense at 15% | 46,127 | (5,877) |
| Use of tax losses carried forward | - | - |
| Current Tax expense at 15% | 46,127 | (5,877) |

The Bank determines the income tax expense at the end of the year in accordance with the Albanian tax legislation. During 2020, bank has used tax losses carried forward from the prior period against the tax profit resulting as at December 31, 2020.

The amount of tax losses carried forward as at December 31, 2020 is presented in the table below:

| Financial Year | Annual tax Result | Loss recognized against Tax profit | Remaining tax loss to be carried forward | Expires by |
|----------------|----------------------|---------------------------------------|---|------------|
| 31.12.2018 | 78,318 | (78,320) | (46,113) | 31.12.2021 |
| 31.12.2019 | 39,179 | (39,179) | (6,934) | 31.12.2022 |
| 31.12.2020 | 149,633 | (149,633) | 142,699 | 31.12.2023 |

In 2019, the Bank has not done any tax prepayments (2019: no tax prepayment). Prepaid income tax at December 31, 2020 was LEK 13,877 thousand (2019: LEK 13,877 thousand). Based on the local accounting law, starting from January 1, 2008 the Bank must report in accordance with IFRS. In addition, Law No. 10364, dated 16.12.2010 provides for certain amendments (effective as of 24 January 2011). Based on these amendments, the impairment allowances charged by banks in accordance with IFRS shall be considered as tax deductible expenses, provided that they are certified by the external auditors and are not in excess of the limits determined by the Central Bank. Effective from 1 January 2014, the limits determined by the Central Bank are not applicable and the impairment charges recognized in accordance with IFRS are considered as tax deductible expenses. Due to this change in the legislation, there were no temporary differences between the book value and the tax value of financial receivables as of December 31, 2020.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

22. Cash and cash equivalents

In the note below there are presented cash and cash equivalents for the purpose of Statement of Cash Flow:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Cash on hand (note 5) | 364,883 | 287,695 |
| Current account balance with Central Bank (note 5) | 234,683 | 390,492 |
| Due from Banks with maturities of less than one month (note 6) | 1,985,856 | 738,657 |
| Due from Banks with maturities of more than one and less than three months (note 6) | 152,993 | 911,376 |
| Total | 2,738,415 | 2,328,220 |

Balances representing cash and cash equivalents from due from banks are presented with accrued interest for short term (1-3 months) bank placements, amounting to Lek 2,138 thousand (2019: Lek 1,650 thousand).

23. Commitments and contingencies

Commitments and contingencies by type are as follows:

| | As at December 31, 2020 | As at December 31, 2019 |
|---------------------|------------------------------------|------------------------------------|
| Guarantees | 25,119 | 7,735 |
| Unused Credit Limit | 33,202 | 18,485 |
| Collaterals | 13,723,702 | 13,159,206 |

Commitments and contingencies as of December 31, 2020 and 2019 are concentrated mainly in Albania.

Guarantees and letters of credit

Guarantees received from customers include cash collateral, mortgages, inventory and other assets pledged in favor of the bank from its borrowers.

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of credits granted. Based on management's estimate, no material losses related to guarantees outstanding at December 2020 will be incurred and thus no provision have been included in these financial statements.

23. Commitments and contingencies (continued)

Legal

In the normal course of business, the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at December 31, 2018.

Lease commitments

The Bank has entered into non-cancellable lease commitments for all branches. Such commitments for the years ended December 31, 2020 and 2019 are composed as follows:

| | As at December 31, 2020 | As at December 31, 2019 |
|----------------------------|------------------------------------|------------------------------------|
| Less than one year | 13,035 | 14,481 |
| Between one and five years | 52,140 | 56,079 |
| | 65,175 | 70,560 |

The Bank has rental agreements for all its branches.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management

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

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are discussed below.

(a) Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its Murabaha and Musharakah financings. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (See Note 23).

Concentrations of credit risk (whether on or off-balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk concentrations for gross amounts due from financing activities by sector are presented in the table below:

| | December | | December | |
|---|------------------|-------------|------------------|-------------|
| | 31, 2020 | % | 31, 2019 | % |
| Domestic trade | 2,119,482 | 35% | 2,563,816 | 46% |
| Retail Financings | 2,008,916 | 33% | 1,449,483 | 26% |
| Construction | 1,122,182 | 19% | 906,746 | 16% |
| Processing | 427,121 | 7% | 277,731 | 5% |
| Education, health, social and other services | 217,675 | 4% | 302,684 | 5% |
| Production and distribution of electricity, steam and water | 124,728 | 2% | 99,075 | 2% |
| Transport and telecommunication | 28,648 | 0% | 20,143 | 0% |
| Agriculture | 4,753 | 0% | 321 | 0% |
| | 6,053,505 | 100% | 5,619,999 | 100% |

At December 31, 2020, loans are secured by mortgages, pledges over machinery, equipment and personal guarantees.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions

The following table summarizes the Bank's net foreign currency position at December 31, 2020 and 2019:

| | USD | Lek | Euro | Other | Total |
|--|------------------|------------------|------------------|----------------|------------------|
| Assets | | | | | |
| Cash and balances with Banks | 216,690 | 409,004 | 581,253 | 25,980 | 1,232,928 |
| Due from banks | 1,231,542 | 730,160 | 176,038 | 1,109 | 2,138,849 |
| Due from financing activities - Murabaha | 770,584 | 2,970,635 | 2,193,270 | - | 5,934,489 |
| Total | 2,218,816 | 4,109,798 | 2,950,562 | 27,090 | 9,306,266 |
| Liabilities | | | | | |
| Due to banks | 289,064 | 671,521 | 30,871 | 9 | 991,465 |
| Customer accounts | 593,016 | 3,921,040 | 2,950,802 | 25,889 | 7,490,746 |
| Total | 882,080 | 4,592,561 | 2,981,673 | 25,898 | 8,482,211 |
| Liquidity gap at 31 December 2020 | 1,336,736 | (482,763) | (31,111) | 1,192 | 824,054 |
| Cumulative gap | 1,336,736 | 853,973 | 822,862 | 824,054 | - |

The sensitivity analysis regarding the two main currencies USD and EUR for the year 2020 is presented below:

| | USD | EUR |
|-------------------|------------|------------|
| Increase with 10% | 133,674 | (3,111) |
| Decrease with 10% | (133,674) | 3,111 |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(b) Currency risk (continued)

| Assets | USD | Lek | Euro | Other | Total |
|--|------------------|------------------|------------------|----------------|------------------|
| Cash and balances with Banks | 141,022 | 584,477 | 491,188 | 16,571 | 1,233,258 |
| Due from banks | 477,807 | 814,012 | 360,338 | 1,134 | 1,653,291 |
| Due from financing activities - Murabaha | 1,111,189 | 2,313,977 | 2,028,950 | - | 5,454,116 |
| Total | 1,730,018 | 3,712,466 | 2,880,476 | 17,705 | 8,340,665 |
| Liabilities | | | | | |
| Due to banks | 11,290 | 582,945 | 165,521 | - | 759,756 |
| Customer accounts | 429,573 | 3,544,936 | 2,693,964 | 16,664 | 6,685,137 |
| Total | 440,863 | 4,127,881 | 2,859,485 | 16,664 | 7,444,893 |
| Net position at 31 December 2019 | 1,289,155 | (415,415) | 20,991 | 1,041 | 895,772 |
| Cumulative Gap | 1,289,155 | 873,740 | 894,731 | 895,772 | - |

The sensitivity analysis regarding the two main currencies USD and EUR for the year 2019 is presented below:

| | USD | EUR |
|-------------------|-----------|---------|
| Increase with 10% | 128,916 | 2,099 |
| Decrease with 10% | (128,916) | (2,099) |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, and share capital. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

As at 31 December 2020 the twenty largest balances due from customers represent 22.03% of the total (2019: 19.86%). The following table shows the Bank's assets and liabilities by remaining maturity at December 31, 2020 and 2019:

| 2020 | Up to 1 month | 1-3 months | 3-6 months | Up to 1 year | More than 1 year | Total |
|--|------------------|------------------|------------------|--------------------|------------------|------------------|
| Assets | | | | | | |
| Cash balance and Central Bank | 1,232,928 | - | - | - | - | 1,232,928 |
| Due from banks | 1,935,217 | 50,638 | - | 152,993 | - | 2,138,849 |
| Due from financing activities - Murabaha | 428,851 | 373,160 | 338,419 | 727,372 | 4,066,688 | 5,934,489 |
| Total financial assets | 3,596,996 | 423,798 | 338,419 | 880,365 | 4,066,688 | 9,306,266 |
| Liabilities and equity | | | | | | |
| Due to banks and institutions | 75,044 | 22,108 | 205,736 | 340,373 | 348,193 | 991,465 |
| Due to customers | 2,486,463 | 629,783 | 575,478 | 1,685,365 | 2,113,657 | 7,490,746 |
| Total financial liabilities | 2,561,507 | 651,892 | 781,215 | 2,025,748 | 2,461,850 | 8,482,211 |
| Liquidity gap at 31 December 2020 | 1,035,488 | (228,094) | (442,796) | (1,145,383) | 1,604,839 | 824,054 |
| Cumulative gap | 1,035,488 | 807,395 | 364,599 | (780,784) | 824,054 | - |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(c) Liquidity risk (continued)

| 2019 | Up to 1 month | 1-3 months | 3-6 months | Up to 1 year | More than 1 year | Total |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | |
| Cash balance and Central Bank | 1,233,258 | - | - | - | - | 1,233,258 |
| Due from banks | 1,653,291 | - | - | - | - | 1,653,291 |
| Due from financing activities- Murabaha | 1,273,931 | 198,092 | 378,304 | 586,548 | 3,017,241 | 5,454,116 |
| Total financial assets | 4,160,480 | 198,092 | 378,304 | 586,548 | 3,017,241 | 8,340,665 |
| Liabilities and equity | | | | | | |
| Due to banks and institutions | 36,284 | 137,943 | 50,463 | 66,692 | 468,374 | 759,756 |
| Due to customers | 1,908,518 | 851,222 | 594,531 | 1,296,234 | 2,034,632 | 6,685,137 |
| Total financial liabilities | 1,944,802 | 989,165 | 644,994 | 1,362,926 | 2,503,006 | 7,444,893 |
| Liquidity gap at 31 December 2019 | 2,215,678 | (791,073) | (266,690) | (776,378) | 514,235 | 895,772 |
| Cumulative gap | 2,215,678 | 1,424,605 | 1,157,915 | 381,537 | 895,772 | - |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(d) Interest rate risk

The Bank's financial income and expenses are subject to the risk of fluctuations to the extent that income-earning assets and income-bearing liabilities mature or re-price at different times or in differing amounts. The Bank attempts to mitigate this risk by monitoring the re-pricing dates of its assets and liabilities. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within re-pricing periods and among currencies.

Interest rate reprising analysis

The following table presents reprising dates for the Bank's assets and liabilities. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

| 2020 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Non-interest bearing | Total |
|--|------------------|------------------|------------------|--------------------|------------------|----------------------|------------------|
| Assets | | | | | | | |
| Cash balance and Central Bank | 633,361 | - | - | - | - | 599,566 | 1,232,928 |
| Due from banks | 1,125,920 | 50,638 | 0 | 152,993 | - | 809,297 | 2,138,849 |
| Due from financing activities - Murabaha | 428,851 | 373,160 | 338,419 | 727,372 | 4,066,688 | - | 5,934,489 |
| Total | 2,188,132 | 423,798 | 338,419 | 880,365 | 4,066,688 | 1,408,863 | 9,306,266 |
| Liabilities and equity | | | | | | | |
| Due to banks and financial institutions | 20,075 | 22,108 | 205,736 | 340,383 | 348,193 | 54,969 | 991,465 |
| Due to customers | 689,444 | 629,783 | 575,478 | 1,685,365 | 2,113,657 | 1,797,020 | 7,490,746 |
| Total | 709,519 | 651,892 | 781,215 | 2,025,748 | 2,461,850 | 1,851,989 | 8,482,211 |
| Gap at 31 December 2020 | 1,478,614 | (228,094) | (442,796) | (1,145,383) | 1,604,839 | (443,125) | 824,054 |
| Cumulative gap | 1,478,614 | 1,250,520 | 807,724 | -337,659 | 1,267,180 | 824,054 | - |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(d) Interest rate risk (continued)

| 2019 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Non-interest bearing | Total |
|---|------------------|------------------|------------------|------------------|------------------|----------------------|------------------|
| Assets | | | | | | | |
| Cash balance and Central Bank | 555,070 | - | - | - | - | 678,188 | 1,233,258 |
| Due from banks | 1,653,291 | 366,805 | - | - | - | - | 1,653,291 |
| Due from financing activities- Murabaha | 1,273,931 | 198,092 | 378,304 | 586,548 | 3,017,241 | - | 5,454,116 |
| Total | 3,482,292 | 198,092 | 378,304 | 586,548 | 3,017,241 | 678,188 | 8,340,665 |
| Liabilities and equity | | | | | | | |
| Due to banks and financial institutions | 12,813 | 137,943 | 50,463 | 66,692 | 468,374 | 23,471 | 759,756 |
| Due to customers | 425,700 | 851,222 | 594,531 | 1,296,234 | 2,034,632 | 1,482,818 | 6,685,137 |
| Total | 438,513 | 989,165 | 644,995 | 1,362,926 | 2,503,006 | 1,506,289 | 7,444,893 |
| Gap at 31 December 2019 | 3,043,779 | (791,073) | (266,690) | (776,378) | 514,235 | (828,101) | 895,772 |
| Cumulative gap | 3,043,779 | 2,252,706 | 1,986,016 | 1,209,638 | 1,723,873 | 895,772 | - |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(e) Capital management

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to the Banking Law. The regulatory capital at December 31, 2020 and 2019 was as follows:

| | December 31,2020 | December 31, 2019 |
|------------------------------|-----------------------------|------------------------------|
| Total shareholders' fund | 1,078,189 | 1,176,263 |
| Deductible intangible assets | (5,456) | (6,882) |
| Regulatory capital | 1,072,733 | 1,169,381 |

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%. The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and 'off balance-sheet' items, expressed as a percentage. The minimum modified capital adequacy is 6%.

The Bank has complied with imposed Capital Adequacy Ratios during the period. As at 31 December 2020, the capital adequacy ratio was 13.87% (in 2019: 16.06%)

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Base capital | | |
| Subscribed capital | 1,876,896 | 1,762,717 |
| Reserves | 159,193 | 159,193 |
| Loss of current year | (96,395) | (40,881) |
| Losses of prior years | (410,844) | (352,720) |
| Intangible fixed assets | 5,455 | 6,882 |
| Translation Reserve | (450,658) | (334,799) |
| Total | 1,083,647 | 1,200,392 |
| Additional capital | - | - |
| Time subordinated liabilities | - | - |
| Total regulatory capital | 1,083,647 | 1,200,392 |
| Risk-weighted assets Credit Risk | 7,230,279 | 6,737,695 |
| Market Risk | - | 50,224 |
| Operational Risk | 504,290 | 491,668 |
| Total | 7,734,569 | 7,279,587 |
| Capital adequacy ratio | 13.87% | 16.06% |
| Minimum required capital adequacy ratio | 12.00% | 12.00% |

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

24. Financial risk management (continued)

(e) Capital management (continued)

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example, cash and money market instruments with Bank of Albania have a zero-risk weighting, which means that no capital is required to support the holding of these assets. Property and equipment carry a 100% risk weighting, meaning that capital equal to 12% of the carrying amount must support it. Credit related commitments are taken into account and are weighted for risk using the same percentages as for assets. The equivalent weighted average interest rates for the main financial assets and liabilities are as follows:

| 31 December | Equivalent weighted average interest rate | | | | | |
|---|---|-------|-------|-------|-------|-------|
| | (Lek) | | (USD) | | (EUR) | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets | | | | | | |
| Due from Central Bank and other banks | 0.43% | 1.01% | 1.74% | 2.92% | 0.00% | 1.22% |
| Due from financing activities- Murabaha | 5.86% | 5.87% | 4.68% | 4.92% | 5.07% | 4.95% |
| Liabilities | | | | | | |
| Due to banks and financial institutions | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Due to customers | 2.75% | 2.80% | 0.98% | 0.59% | 0.65% | 0.67% |

25. Related party transactions

Related parties are defined in accordance with the Article 4 'Definitions', paragraphs 9 and 10, of the Law No. 9662, dated 18 December 2006 "On Banks in the Republic of Albania". The maximum exposures with related parties are monitored for compliance with Article 64 of this Law.

The Bank enters into transactions with its shareholders in the ordinary course of business. The balances of major transactions with related parties are as follows:

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Assets | | |
| Due from Dallah Holding subsidiaries | 399,681 | 264,189 |
| Financing activities- Murabaha Ithmar Bank | 11,299 | 5,031 |
| Provision for financing activities Ithmar Bank | - | (1,474) |
| Liabilities | | |
| Due to customers – Faisal El Khereji | 8,913 | - |
| Due to customers – Eurosig | - | 528,559 |

The balances presented above are with shareholders that own less than 5% of the share capital of the Bank and are not considered as related for purposes of compliance with Article 64 of the Banking Law of the maximum exposures with related parties.

United Bank of Albania Sh.a.

Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

25. Related party transactions (continued)

Transactions with directors

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

| | 2020 | 2019 |
|--|---------------|---------------|
| Salaries, bonuses and other benefits | 32,500 | 27,493 |
| Bonuses and other benefits | 2,670 | 3,290 |
| Remuneration of the Board of Directors | 2,662 | 6,233 |
| Total | 37,832 | 37,017 |

The income and expenses arising from transactions with related parties are as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Income: | | |
| Income from Dallah Holding subsidiaries | 2,912 | 9,032 |
| Income from financing activities | 295 | 9213 |
| Expenses: | | |
| Impairment loss on Mudaraba investment funds | (113) | (2,602) |
| Customers' share on profit | (20,271) | (9,215) |

26. Fair Value disclosures

Fair value estimates are based on existing conditions related to the financial instruments, without attempting to estimate the value of anticipated future business. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected losses, experience, current economic conditions and risk characteristics of various financial instruments that are readily marketable.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

| | December 31, 2020 | | | Total |
|---|-----------------------|--------------------------|-----------------------|-----------|
| | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | |
| Cash and balances with Central Bank | 1,232,928 | - | - | 1,232,928 |
| Due from banks and other financial institutions | - | - | 1,924,548 | 1,924,548 |
| Due from financing activities – Murabaha | - | - | 5,934,489 | 4,691,989 |
| Due to banks and financial institutions | - | - | 991,465 | 991,465 |
| Due to customers | - | - | 7,490,746 | 7,490,746 |

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Notes to the financial statements as at and for the year ended December 31, 2020

(Amounts in Lek'000 unless otherwise stated)

26. Fair Value disclosures (continued)

| | December 31, 2019 | | | Total |
|---|--------------------|--------------------|--------------------|------------------|
| | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | |
| Cash and balances with Central Bank | 1,233,258 | - | - | 1,233,258 |
| Due from banks and other financial institutions | - | - | 1,653,291 | 1,653,291 |
| Due from financing activities – Murabaha | - | - | 4,691,999 | 4,691,999 |
| Due to banks and financial institutions | - | - | 1,020,149 | 1,020,149 |
| Due to customers | - | - | 6,116,601 | 6,116,601 |

Cash and balances with Central Bank

Cash and cash equivalents include current accounts and compulsory reserve with Central Bank. As these balances are short term their fair value is considered to equate to their carrying amount.

Due from banks and other financial

Due from banks and other financial include current accounts and short-term deposit in second tier banks. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

27. Subsequent events

On 8 July 2021, the Bank has signed a sale agreement with Eurosig sh.a., by which the latter has acquired an additional 30% of the share capital of the Bank and obtained control through its ability to cast a majority of votes in the general meeting of Shareholders. The new Shareholders structure is as follows:

| | |
|---------------------------------|--------|
| EUROSIG SH.A | 51.02% |
| Islamic Development Bank Jeddah | 42.20% |
| Ithmaar Bank B.S.C. | 4.30% |
| Other investors | 2.48% |

The sale agreement is under process to be approved by the Supervisory Council of Bank of Albania. The new shareholder will increase the Bank's penetration of its chosen retail and corporate markets and is expected to improve profitability.

On 3 August 2021 based on Assembly of Shareholders meeting decision no.03, it was approved the increase of the capital of the Bank with new injection in cash to occur within year ended December 31,2021.

There are no other significant events after the date of the financial statements that require adjustments or disclosures in the financial statements.