ProCredit Bank

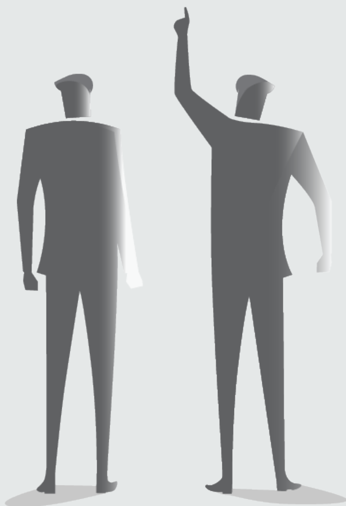
Albania

ANNUAL REPORT

2022

2022

2021



Our Mission

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who have the capacity to save and who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

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

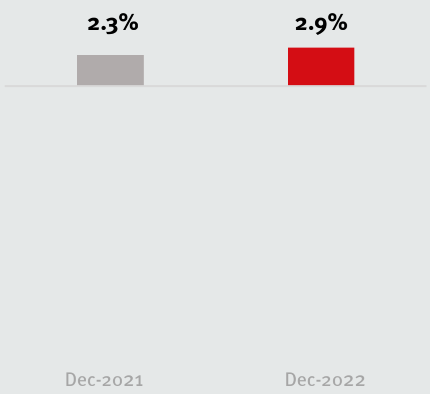
Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent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

For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the

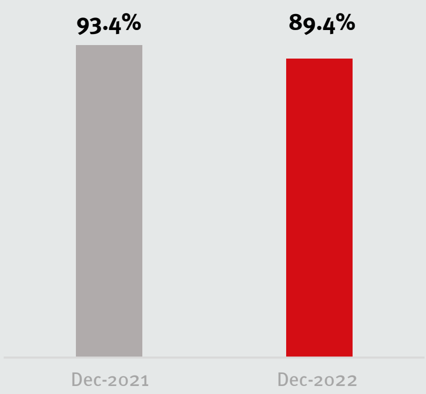
ProCredit Group Impact Report

Key financial figures

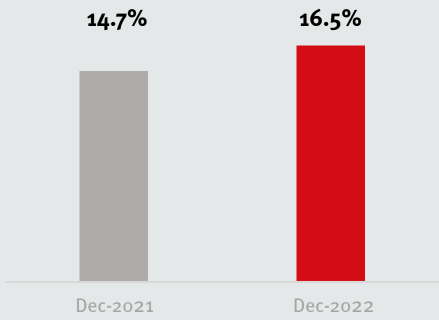
Return on equity



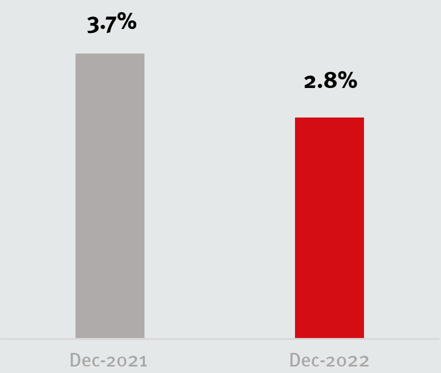
Cost-Income ratio



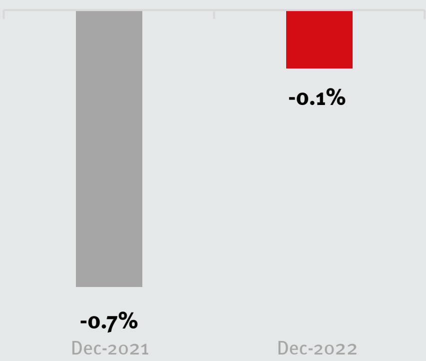
Total regulatory capital ratio



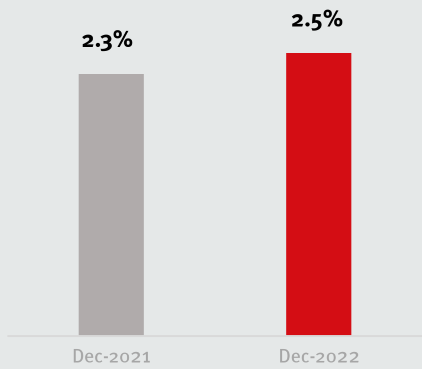
Share of defaulted loans



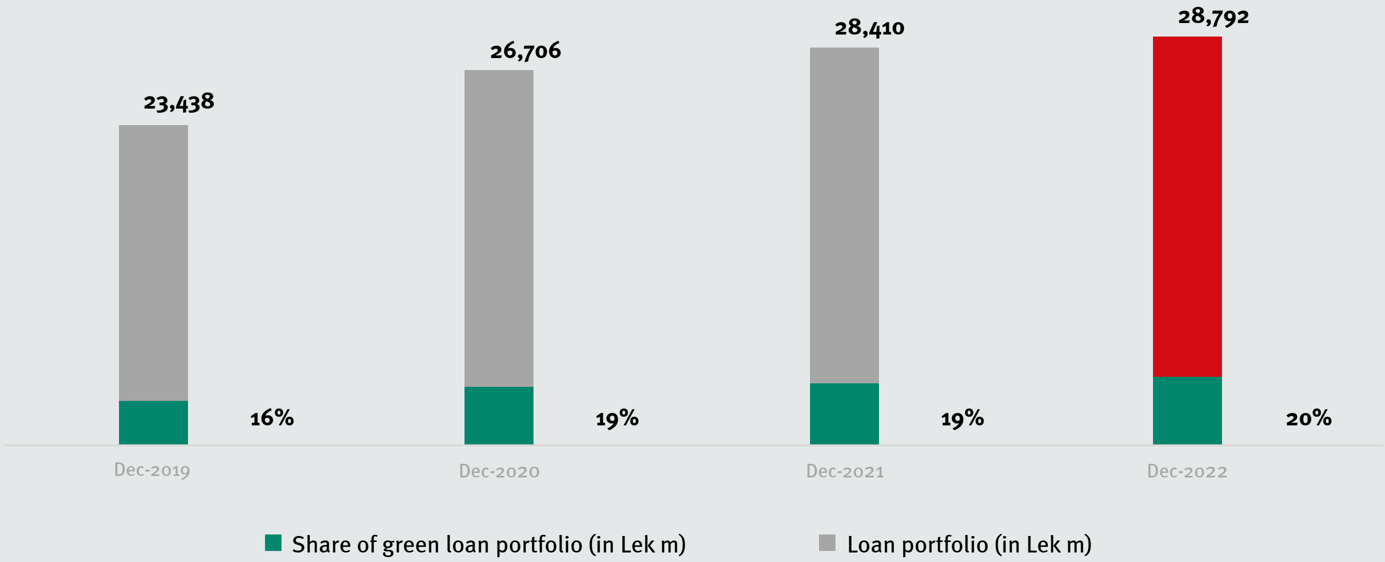
Cost of risk



Net interest margin



Loan Portfolio growth and share of green loan portfolio



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ProCredit Today

ProCredit Bank is guided by a moral compass and is committed to being a responsible bank that adheres to and is guided by development-oriented principles. Our shareholders expect a sustainable return on investment but are not solely interested in short-term profit maximization. ProCredit Bank believes that the best way to use capital is by contributing to sustainable and long-term economic development.

Our focus remains on providing quality service to small and medium-sized enterprises because we are convinced that these businesses create the largest number of jobs and make a substantial contribution to the economies in which they operate. Specifically, we work with companies that drive innovation through state-of-the-art investments and strive to reduce their environmental impact. We promote a culture of saving and financial responsibility by offering easy deposit services to our customers, digital services, and investing significant resources in financial education for both business customers and private individuals.

For each financing of our business clients, the social and environmental impact assessment remains an important decision-making pillar. The best evidence of this is not engaging in activities that generate profit but are harmful from a social and environmental point of view. ProCredit promotes sustainable and green investments by businesses and private individuals as the best way to reduce greenhouse gases, which is crucial in the fight against climate change.

We continuously invest in the training of our employees to create a satisfying and efficient work environment, as well as to provide professional and convenient service to our customers. We maintain the same approach for both customers and staff without differentiation. We work together as partners to solve complex problems in difficult circumstances, with mutual respect and a sense of shared responsibility. Without the strong foundation we maintain in our internal culture, which is built and shaped every day through the thoughts and actions we take, our unique approach would not be possible. The identities of the individuals who work for the bank define our collective identity. We believe that it is people who define companies, not their mission statements.

Management Board Members as of December 2022

Mirsad Haliti
Qëndresa Mehmeti
Diamant Ibrahimi

Bank ProCredit Sh.A Albania is 100% owned by ProCredit Holding with its headquarters in Germany. The bank itself is not a shareholder with shares/quotas and does not own any other commercial company. In addition to the Shareholders' Assembly, the main governing bodies of the bank are:

The Executive Directorate, the Steering Boaord, and the Control Committee. The Bank's Board of Directors meets four times a year. The meetings of the Control Committee are also organized at the same frequency. The Board of Directors of the Bank consists of 5 members, while the Control Committee and the Executive Directorate consist of 3 members each.

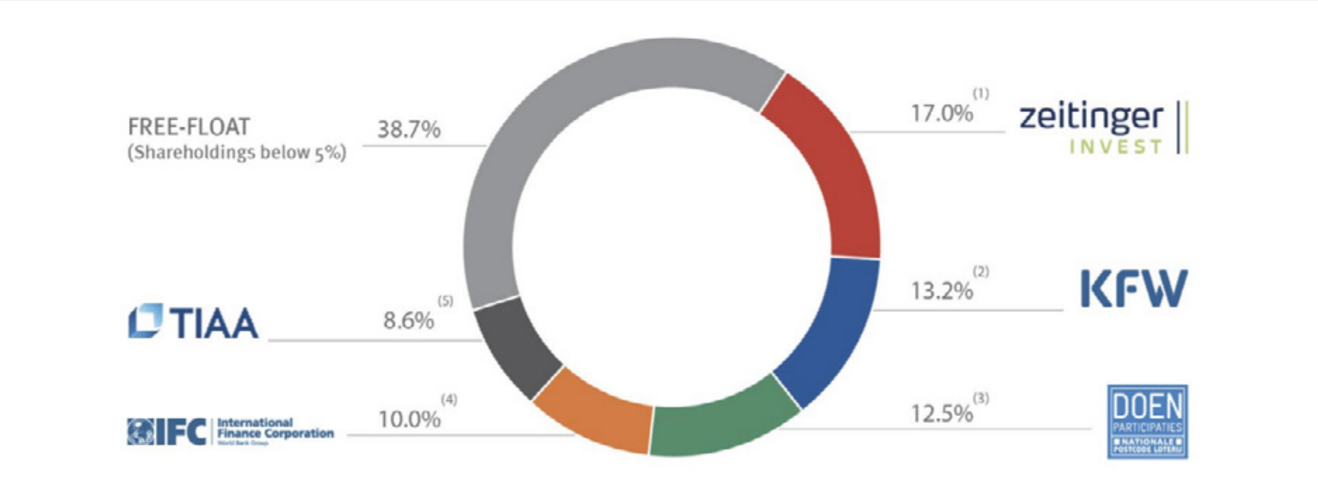
The following is the composition of the bank's governing bodies, until 31.12.2022:

Members of the Management Board:
Mirsad Haliti
Qëndresa Mehmeti
Diamant Ibrahimi

Members of the Board of Directors:
Eriola Bibolli (Chairman of the Board)
Wolfgang Bertelsmeier
Jordan Damchevski
Jovanka Joleska Popovska
Christian Edgardo Dagrosa

Members of the Audit Committee:
Jovanka Joleska Popovska
Vesna Paunovska
Nicole Kraft

ProCredit Bank Sh.A Albania is owned 100% by ProCredit Holding AG & Co KGaA, the parent company of the development-oriented ProCredit group, which consists of a commercial banks for SMEs with a focus of activity in South-Eastern and Eastern Europe.



Shareholder structure

According to available voting rights notifications, as of year-end approximately 55% of the shares in ProCredit Holding were held by the core shareholders: Zeitinger Invest GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Paticipaties BV, and the International Finance Corporation (part of the World Bank Group).

ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with roughly 3% of the shares. The Teachers Insurance and Annuity Association of America holds between 8.6% of the shares.

The free float, defined by the German Stock Exchange as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2022 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG & Co. KGaA by FMO (Netherlands Development Finance Company), BIO (Belgian Investment Company for Developing Countries), MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.

FitchRatings
BB -

ProCredit is rated by the international rating agency Fitch Ratings.

Supervised by
BaFin

We work in accordance with the best intern tional banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

Digital Approach

Development, technology and digitization are becoming more and more a priority during banking activity. This also applies to ProCredit Bank: automation and digitalization not only facilitate all the banking operations of our customers but also create a competitive advantage for the bank.

ProCredit Bank uses advanced technology to provide services to customers. In the countries where we are present, we pioneer innovation in the financial industry.

Despite the circumstances created by the post-pandemic, thanks to the high level of digitalization of our banking services that were already in operation, we continued our banking activity without restrictions.

As a result of implementing the Direct Banking strategy, our customers no longer need to visit the bank to perform simple routine transactions. We have managed to automate these transactions, focussing particularly on customer advice.

Our client advisors are dedicated to providing personalized service to our clients, discuss with them to understand their plans and financial capacity to invest. They aim to get to know customers and their financial needs in order to advise them on the banking or financial services they need. ProCredit Bank's goal is to continue to offer financial and non-financial services through various digital channels, to give customers the full banking experience, and in turn, continue to offer expertise for various financial needs through our advisors.

Environmental Approach

Environmental protection is often left in the shadows, thus making the market less incentivized toward green financing. As a result, throughout the years and especially during 2022, our bank has done much more than simply create and grant green loans. We have dedicated resources to many campaigns to increase environmental awareness through regular training for our staff, or enabling them to influence the improvement of the environmental performance of the businesses we work with. The growth of the bank's green portfolio is proof of our intensive efforts in this direction. At the end of 2022, about 20.3% of our total loan portfolio was green. Comprehensive training is provided to our staff not only at the bank level, but also at the ProCredit Group level, from the Academies for Managers and Bankers located in Furth, Germany. Minimizing the negative environmental impact and proactively promoting a sustainable way of doing business is an integral part of ProCredit Bank's strategy, not only in relation to our credit activity or in providing services to our customers but also in our daily activities. Providing green financial services also means examining the credibility of ProCredit Bank itself, especially where it concerns environmental performance. Green financing includes the three pillars of ProCredit Bank's Environmental Management System (EMS), which became part of the group's activities in 2011.

Internal environmental management

Our approach is based on processes and procedures that help us systematically reduce our direct environmental footprint.

Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.

Management of environmental and social risk in lending

We recognise our responsibility for our clients' environmental and social (E&S) impact.

In order to mitigate E&S risks and assess the potential E&S impact of investments financed, a thorough E&S assessment is an integral part of our credit risk analysis.

Green finance

We aim to have a positive environmental impact by promoting green investments in our countries of operation.

We support clients who want to improve their business processes in an environmentally sound manner by investing in energy e◊ciency, renewable energy or environmental protection.

Internal environmental management – includes internal measures to minimize the environmental impact of ProCredit Bank and the continuous monitoring of environmental performance when dealing with the consumption of natural resources, the transition to sustainable use of resources, renewable energy and the renovation of spaces of work premises to achieve efficient use of resources.

Environmental and social risk assessment – includes not only internal measures, but also mechanisms to assess the environmental and social impacts of ProCredit Bank's clients. In this regard, despite the list of exceptions that can be found on the Bank's website, taking into account the long-term negative impact on the environment from single-use plastics, we have developed a lending strategy for plastic manufacturers.
As a result, we have classified plastic manufacturers into three categories:

The black list
The EU has banned all types of plastic from 3 July 2021 in accordance with EU Directive 2019/904 (mainly for replaceable single-use plastics). These companies are excluded from bank financing, they lack a business plan that is convincing to stop the production of those products on this list, within a short period of time.

Gray list
All other types of single-use plastic items present an environmental impact when not properly collected, especially products such as packaging, bottles, and microplastics. New customers: Not financed. Existing customers: Customers are required to continuously follow and improve sustainable practices, either by using recycling methods and taking responsibility for collecting their products after use.

White list
Long-life plastic products for which there are no alternatives or alternatives would have a higher environmental impact. Our bank will continue to finance customers, but will still discuss with them options for sustainable plastic production and support them in the steps towards sustainability that they will take.

Green loans – During the last year, ProCredit Bank's Green Loan Portfolio has achieved an increase of 15.6% compared to 2021, constituting 20.3% of the total loan portfolio. ProCredit Bank's approach to lending has been constantly redefined based on our experiences over the years and currently reflects the best practice based on more than a decade of experience in providing green loans to businesses in Albania. Green investments at ProCredit Bank are divided into three main categories:

Energy Efficiency Investments
Investments that reduce energy consumption by at least 20% (EE)

Renewable Energy Investments
Investments in renewable energy (RE) distribution or generation systems

Environmentally Friendly Investments
Investments Investments in waste management or organic agriculture (GR)

Sustainable Development Goals

The Bank contributes directly and indirectly to some of the Sustainable Development Goals. Considering the measures taken, during the year 2022 compared to the year 2021 we have managed to reduce the number of important indicators. Regarding the three pillars of Green Finance - below is a summary of the contribution to some of the Sustainable Development Goals and the concrete impact during the year 2022.

SDG and related material topic(s)	Associated target	Selection of relevant business activities/indicators contributing to our expectations
7 CLEAN AND AFFORDABLE ENERGY	7.2 By 2030, the share of renewable energy at the global energy level should be significantly increased. 7.3 By 2030, double the global rate of energy efficiency improvement	"... Monitoring and reporting on the amount of energy produced, purchased and consumed, by source. Supporting new business models to provide sustainable and renewable energy". – Electricity consumption has been reduced by 7.9% – The installed capacity of renewable energy in our premises through photovoltaic panels in the building (17.5 kWp) – Renewable energy projects consisting of photovoltaic panels in the loan portfolio (39 MWp)
8 DECENT WORK AND ECONOMIC GROWTH	8.4 Progressive improvement, until 2030, of the efficiency of global resources in consumption and efforts to ensure economic growth without environmental degradation, in accordance with the 10-year framework of programs for sustainable consumption and production, where the leading role is taken by developed countries. 8.7 Take immediate and effective measures to end forced labour, to end modern slavery and human trafficking and to ensure the prohibition and elimination of all forms of child labour, including the recruitment and exploitation of children and by 2025 to put an end to child labor in all of its forms.	"...Responsibly influence consumers and consumption patterns and promote sustainable consumption and lifestyles through, for example, product development and marketing. Implement sustainability aspects for suppliers, not only to reduce the cost of supply, but also to simultaneously implement efficiency measures to reduce the environmental footprint in the supply chain. Improve the efficiency of the use of energy, water, (raw) materials and other resources..." – Annual selection of green topics in marketing activities to address customers, employees and the general public in all the countries where Pro Credit Bank operates - Electricity consumption has been reduced by 7.9%, while total atmospheric emissions (kgCO2eq) have been reduced by 28.1%, compared to 2021. These indicators are the result of a series of measures that have been taken internally, such as optimizing the surfaces of business units and replacing internal combustion engine vehicles with electric vehicles. The increase in the number of staff has influenced the slight increase in water consumption by 2.4%, compared to 2021. – Development of guidelines for sustainable procurement, including a definition of what sustainable suppliers are.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.3 Increase the access of small industrial and other enterprises, especially in developing countries, to financial services, including affordable credit and their integration into value chains and markets. 9.4 By 2030, advance infrastructure and retrofit industries to make them sustainable, with increased efficiency exploitation and larger use of clean and environmentally sound industrial technologies and processes, where all countries undertake actions in accordance with their respective capacities	"... Implement business models, such as the use of renewable, bio-based or completely recyclable resources, restoration of resources, extension of the life cycle of products. Separate waste generated by type, treatment and disposal destination..." – 100% use of either certified or recycled paper. – Develop a group-wide strategy and Exclusion List to reduce plastic production and use. "...In this context, work with the public sector and local organizations to build networks that ensure social inclusion and equal access for SMEs, small owners and businesses run by disadvantaged groups. Provide innovative financing mechanisms such as green funds and impact investments that promote more sustainable local economies..." – Promote competitive mechanism for SMEs by the EBRD. – Finance businesses and private clients for investments in photovoltaic systems.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.2 Achieve sustainable management and efficient use of natural resources by 2030 12.5 By 2030, significantly reduce waste generation through prevention, reduction, recycling and reuse	"... Understand sustainable management and efficiency of resources in all activities, products and services. Create and maintain proactive management systems. Create measurable objectives for the improvement of environmental performance and the use of resources. Regular tracking and reporting on the amount of energy, water and materials consumed and treated in business activity and improve efficiency through reuse/ recycling..." - Promote green financial products - Regular certification of environmental management systems in the bank according to ISO 14001 which is confirmed every year.

Business Approach

At the center of our business strategy are small and medium-sized enterprises, as we are convinced that it is these enterprises that create the largest number of jobs and make an essential contribution to the economies where they operate. Our constructive and transparent approach coupled with the professionalism of our Business Advisors, has made the bank identify the needs of customers, thus providing them with suitable financial services and also effective and efficient financing.

The bank shows special care and focuses on responsible financial services. In accordance with the Group's strategy, ProCredit Bank in Albania has developed for its customers the "hausbank" business concept, i.e. the bank not only finances loans and other financial products for business customers but also offers a wide range of financial services that are aligned with their needs.

These services include the advanced electronic e-banking platform through which business clients can perform: national and international transfers quickly and safely at low costs; payment of salaries and multiple payments; payment of bills; payment for customs, taxes, utilities; credit account and credit line management; cards; trade finance services; and the digital banking model in 24/7 Zones.

These spaces enable businesses to manage their funds without being limited in time,like withdrawing or depositing large amounts, 24 hours a day, 7 days a week, at ATMs and DropBox. Our banking services help businesses expand and operate more efficiently, increasing business sustainability and improving efficiency. The bank aims to have a long-term partnership with small and medium enterprises and support their development. These elements, combined with the specialized experience of Business Advisors, are the basis of our business model.

The year 2022 has been a challenging year for small and medium-sized businesses since the global macroeconomic situation has not been stable. ProCredit Bank has continued to support businesses and their support even at this time, not only through financing but also through giving the right advice to manage the challenges as best as possible this year. The bank has given special focus to the stimulation and promotion of investment loans for all small and medium-sized enterprises, especially production ones. ProCredit Bank, as a bank that develops responsible banking activities, has a special focus on acting in accordance with environmental standards. The bank has continued to support its clients who have invested through "green loans", a term that characterizes all financial services for investment in energy saving, renewable energy sources, as well as other environmental-friendly measures and optimization of operating costs.

During 2022, the drive to stimulate as many business customers as possible to make such investments has continued, with a special focus on saving electricity through investments in solar panels, in the renovation of production machinery, and in measures that would reduce water or air pollution.

Business Approach

ProCredit Bank has offered savings accounts to its business customers, thus enabling the transfer of additional business liquidity to interest-bearing accounts and flexibility in its use. ProCredit Bank considers Business Advisors as a key point in implementing the Bank's strategy for developing long-term professional relationships with business clients. Business Advisors are the main channel not only for providing banking services to business customers but also for professional advice and discussions with small and medium-sized bank customers.

The bank continuously invests in their training and professional development. In addition to supporting short- and medium-term business investments, our special focus for 2023 will continue to be on supporting and stimulating long-term investments, and in particular on supporting and promoting green investments with an emphasis on energy saving and production businesses. Likewise, the Bank will continue to support businesses in channeling their sales through digital channels. The goal of ProCredit Bank remains to be the "hausbank" for SME customers and to create long-term relationships with customers.

Private Clients

Our aim is to be the bank of choice for individuals and families who want to save and invest to improve their living conditions. This is a result of our personalized approach, responsible financing and advanced banking technologies, which are available to customers 24/7.

We believe that digital banking is the future and the best way forward. Our strategy has strengthened the confidence of our customers even in difficult situations such as the pandemic and post-pandemic, where we have been ready to serve our customers remotely. The use of our online platforms has grown year after year thanks to innovations in functionality, improvements in speed, and increased security of our platforms.

We have concluded a significant number of agreements with well-known construction companies regarding their work standards in the construction market, to enable families with economic stability, but without mortgages, to finance their investment plans.

ProCredit Bank appreciates and recognizes the impact that our initiatives have, starting with our customers and further, with the general public. Therefore, we constantly work on the continuous improvement of our digital services and our personalized approach to our customers.

Risk Management

ProCredit Bank defines credit risk as the losses incurred if the party in a transaction cannot fulfill its contractual obligations, completely or on time. The bank distinguishes between customer credit risk and counterparty risk in the context of overall credit risk (including creditor risk). The main risk for us is credit risk and exposures to consumer loans make up the majority of this risk.

ProCredit Bank's main activity is to provide financial support to SME clients as well as individuals who value savings and choose long-term investments. Recently, the bank has begun to focus on Very Small Enterprises, which can include family businesses and agricultural producers. The objectives of credit risk management are to achieve high quality of the loan portfolio, low concentrations of risk within the loan portfolio and adequate coverage of credit risk with loan loss provisions.

The Bank's framework for credit risk management is presented in the relevant policies and standards, which are based on the policies of ProCredit Group and set forth the Bank's essential principles for its management. These strategies, when taken as a whole, illustrate the successful lending activity of ProCredit Bank for developing and transition economies. Moreover, these documents are fully in accordance with the laws and regulations of Albania. Thus, the policies and standards define risk mitigation measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation, review of early warning indicators and management of intensive and problematic loans).

The bank uses several approaches to limit credit risk during its management process, which also includes a comprehensive review of the debt capacity of our clients. This is where taking steps to avoid debt, regularly reviewing credit exposure, and closely managing NPL exposure can come into play. In addition, the use of well-designed and well-documented processes, the principle of four eyes, long-term relationships and regular communication with clients, as well as investment in well-trained and motivated staff help to mitigate credit risk. Also, portfolio analysis is one of the core competencies of our bank. Due to the very dynamic macroeconomic environment in which we operate, this applies both to ProCredit Bank and to the Group.

The bank uses a loan portfolio monitoring system that is compliant with the International Financial Reporting Standard (IFRS 9) that identifies and manages potential problems at an early stage. However, the bank's decision-making is also based on several macroeconomic analyzes with an emphasis on the analysis of the market and economic sectors.

Another factor that contributes to Credit Risk being a well-managed risk and ProCredit Bank's portfolio being sufficiently diversified is that any potential concentration of risk is widely assessed for its impact on the bank's ability to absorb it. The diversification of customer groups consists of a wide range of economic sectors and customer groups, including medium-sized, small and very small companies, as well as individual and institutional customers. ProCredit Bank also aims to offer customers clear and easy-to-understand products, resulting in a high level of transparency for both parties.

We use a variety of credit risk management techniques when dealing with different categories of clients and credit exposures, such as the separation of duties for small and medium-sized credit exposures, the implementation of standardized and tested procedures for loans granted to private clients, identifying criteria for loan decision-making, applying different collateral requirements based on the loan amount, and documenting the customer's credit history. In addition, collateral evaluation is done by licensed third-party companies, thus reducing the risk associated with collateral evaluation. Because the vast majority of bank loans are repaid in monthly installments, failure to meet contractual obligations by the borrower is considered an early warning of potential default, prompting immediate response from the bank. The monitoring mechanism, which uses early warning indicators, enables the Bank to act quickly in case of possible non-payment.

Our 360-degree approach to client and exposure assessment

The general needs of the customer, in addition to the current demand and the possible activity with the customer in the future, as part of the concept of Hausbank and the long-term relationship with the customer.

Collateral coverage rate, based on available collateral and in accordance with collateral requirements.

Reason, object, size "matched" with the general approach to the business, quality of plan / projections, ability to manage.

Ownership structure, management skills and experience, company organization (eg, continuity plan), business model, market trends and development.

The client's approach to the environmental, social, health and safety impact of business activity.

Financial strength and capacity to meet financial obligations through levels of liquidity, profitability and solvency, potential risks to financial strength and how these risks are managed.

During fiscal years 2020-2021-2022, credit risk management has been the main focus. Our extensive knowledge of the market and the careful selection of ProCredit Bank's clients have contributed to the careful management of credit risk. After the outbreak of COVID-19, ProCredit Bank took several steps to prevent the deterioration of the quality of the loan portfolio. The first step was to be in constant contact with all business customers and individuals to obtain information regarding the potential impact on their operations and finances. This made it easier to analyze the risk, focusing on the individuals who would be most affected by the pandemic situation. The bank was able to provide repayment relief to customers experiencing financial difficulties due to the pandemic, thanks to instructions from the Bank of Albania for loan restructuring in response to COVID-19. These restructuring efforts were a useful tool during the most uncertain times during the pandemic and were used again in 2022. Meanwhile, the Ukraine-Russia conflict has widely impacted the global economy. In parallel with these measures, ProCredit bank intensified the annual monitoring of clients by updating the risk analysis for all business clients. During this process, consideration was given to the impact that the Ukraine-Russia conflict had on economic sectors and the individual impact on the liquidity and paying capacity of companies.

As a result of these intensified monitoring for the relevant periods of the loan portfolio, the risk classification was lowered where necessary and restructuring measures were taken to prevent possible defaults. Credit risk continues to be a priority in 2023, both on a portfolio and individual basis. We can anticipate potential challenges or funding requirements during the development of our clients' business activity as we observe them closely.

Risk Tolerance

Appetite of ProCredit Bank Albania

Bank ProCredit Albania is a development-oriented bank that offers financial services to small and medium enterprises (SMEs) and private clients (PCs). The bank's business strategy is straightforward: Its two main pillars are the " Hausbank for SMEs" concept and ProCredit Direct for private clients (PC), reinforced by a special focus on promoting green investments and supporting clients who aim to improve their business processes in a way that reduces negative environmental effects.

Environmental impact and awareness, as well as environmental, social and governance (ESG) risk management, have been central to the ProCredit group's identity and business philosophy since its inception. The Bank intends to promote sustainable development in all of its aspects. The bank does not engage in speculative business lines and does not offer consumer loans. The general orientation is towards stability, especially in relation to the bank's income situation and risk profile.

The first important aspect in determining the Bank's risk appetite is the target risk profile, which is directly reflected by its business model. Therefore, the risk appetite of ProCredit Bank is expressed, among others, through the following principles of business policies:

- Accountability in providing banking services, with a view to development, including a high level of awareness of environmental/social/governance (ESG) risk;
- Focus on the main activity: provide financial services for SMEs;
- Provide simple and transparent financial products to target customers (PCs);
- Modern banking services through electronic channels;
- Avoid financing of consumer goods;
- Avoid risk concentrations;
- Careful selection of Business and PCs with the objective of long-term cooperation;
- A structured, multi-stage process of staff selection and careful training, during which special importance is given to ethical, social and environmental aspects;
- A shared risk culture that emphasizes the responsibility of each employee in the context of taking risks and that emphasizes open communication and a flat hierarchical structure.

Based on these general principles, the Bank performs annually, and ad-hoc if necessary, a risk inventory process, to assess which risks may have a significant negative impact on its financial position (in terms of the adequacy of capital, profitability and liquidity, including the effects of ESG risk). Special attention is also paid to risk concentrations.

Once all the risks are identified, a second important aspect is the maximum amount of risk that the Bank is willing to take and can accept against the capital and liquidity it has available. Risk appetite is defined as the total risk aggregated for all specific types of risk, that the Bank is willing to undertake, in order to achieve its strategic objectives and business plan. Consequently, the bank's management has determined its appetite for risk through the internal capital adequacy assessment process (ICAAP) and through the internal liquidity adequacy assessment process (ILAAP). The basic principle is that the bank cannot undertake greater risks than it is able to bear, thus ensuring at all times the appropriate level of capital and liquidity. In order to achieve capital adequacy and appropriate levels of liquidity throughout the process, individual and careful management of key risks is necessary. Risk appetite also defines the approach to risk management in the bank, which includes all policies, standards, guidelines, management instruments, risk reporting, controls and processes, as well as risk governance.

Risk Tolerance
Appetite of ProCredit Bank Albania

ICAAP
Normative perspective
In order to permanently ensure the normative perspective, the management of the bank determines the limits and early warning indicators, which are in accordance with the regulatory requirements, as defined by the Bank of Albania (BSH) and the ProCredit Group.

Economic perspective
Based on the simple business model and the stable risk profile, also on the strong risk management processes, the bank's management determines that a maximum of 60% of the risk retention potential (called the available resources for risk coverage , RAtCR) can be used to cover risks from the economic perspective. In accordance with the business and risk strategy, the Bank undertakes the important following risks and determines these percentages to RAtCR from the economic perspective:

Credit risk: Given that the Bank is a " Hausbank" for small and medium enterprises and focuses on providing financial services, credit risk represents the most important category for the bank. Credit risk refers to the risk of non-fulfillment of contractual obligations by a party to a transaction, in full or on time, and therefore includes the categories of credit risk to customers, counterparty risk and issuer risk. Consequently, this category is assigned the highest percentage (38%) of the Bank's RAtCR.

Thanks to the well-trained staff, as well as the strong internal control system and various instruments used specifically for operational risk management (such as the operational risk event database), the Bank has historically suffered losses at levels of low operational risk (including fraud). Consequently, this category is assigned a relatively small percentage of 10% of the RAtCR.
Since the deposits of the Bank's customers often have short maturities and the local financial market offers very limited mechanisms for the protection of the interest rate risk , then accepting this risk to a certain degree is necessary for the achievement of strategic objectives. . Therefore, the percentage of 10% of the RAtCR has been assigned to this category.

Although the Bank follows a conservative strategy in terms of exchange rate risk , and aims to keep currency positions closed to the maximum extent possible, complete avoidance of currency risk is impossible in certain circumstances. Therefore, the percentage of 2% of the RAtCR has been assigned to this category.
Also, the remaining 40% of the RAtCR represents a protective reserve with the aim of covering other risks, such as financing, business and income, as well as stress scenarios.

ILAAP
Appetite/tolerance to liquidity risk is determined through a series of indicators with limits and corresponding early warning (signalling) levels, which aim to measure and limit the risks undertaken, under different dimensions. Internally set limits are more restrictive than those defined in the regulatory framework, thus ensuring a prudent approach to liquidity risk management.

Also, based on internal policy requirements, the Bank monitors, evaluates and manages liquidity risk based on an internal model, where compliance with limits and early warning levels must be ensured at all times.

Comprehensive Statement

Within the framework of the definitions and principles established in the Regulation of the Bank of Albania "On the basic principles of the management of banks and branches of foreign banks and the criteria for the approval of their administrators" ProCredit Bank declares that:

Based on the ProCredit Bank charter, the Members of the Board of Directors, as well as the Members of the Bank's Control Committee, shall not be paid for the performance of their duties, but receive an appropriate diet for expenses, which is determined from time to time by the Shareholders' Assembly .

The members of the ProCredit Bank's Executive Board, as the highest executive managers and in accordance with the bank's risk profile, shall be paid on the basis of a fixed monthly salary, the annual gross amount of which is ALL 28,408,149. The bank's remuneration policies consist of the distribution of a fixed monthly salary for work in relation to the position, experience, responsibilities and tasks that each employee has, as well as in not giving additional bonuses. Remuneration policies and practices are well-documented and transparent to staff regarding their constituent elements and eligibility criteria. Other ways of rewarding employees are given in the form of:

- Private Health Insurance Package, which includes the medical check-up package, which provides coverage for health examinations starting from the annual routine checkup.
- Travel and rental packages
- Telephone package

With a view to ensuring legitimacy, security and effective execution throughout its activity, ProCredit Bank defines and implements the following acts:

- Risk management policy and procedures
- Procedure for appointment and documentation criteria for bank administrators for approval by the Bank of Albania
- Procedure for guaranteeing legal compliance with external regulations.

The Salary Policy is in line with the salary policy of the ProCredit Group, as well as defines the role that ProCredit Holding plays in relation to the internal policy. The purpose of this policy is to define the basis on which the salary structure is established, also reference is made to changes in positions, organizational structure of the institution and training requirements for each salary group. The salary structure of the bank is an essential component of the HR policy. It aims to provide a simple and coherent framework of salary levels for all positions in ProCredit as well as clear career development paths. Each position in the bank appears in the salary structure with a salary range consisting of a certain number of salary steps that can be used depending on the performance of each employee.

The principle of a fixed (not variable) salary is strongly reaffirmed as a key element of the institution's salary policy. Not only have performance-based bonuses been abolished, but additional financial benefits, such as the thirteenth or fourteenth monthly pay, payments of any kind, vouchers, holiday expenses, etc., are also not applied. This is done to ensure a stable form of remuneration for our employees over the long term, rather than an unpredictable package that can be changed.

The positions are interconnected, reflecting the different degrees of complexity and contribution to the Bank's development. The number of different positions in the pay grid is deliberately limited to reflect the relatively flat hierarchical organization of the bank. Having a clear salary framework clearly illustrates the identity of the ProCredit bank, in coherence with the ProCredit banks of the group that share a common vision by gathering all their employees under the same "roof" of principles.

Annual salary increases are subject to performance analysis, individual contribution and dedication of the employee, professional development and decision-making in the Human Resources Committee.

The Human Resources Committee guides the development of Human Resources in the institution through the discussion and decision-making of strategic issues that are usually proposed by the Human Resources Unit, Members of the Executive Directorate, members of the Human Resources Committee, as well as proposals that may come from the heads of Business Units or Departments/Units in the Head Offices. The Human Resources Committee meets at least once every three months.

Independent Auditor's Report and Financial Statements

ProCredit Bank Sh.a.

Independent Auditor's Report and International Financial Reporting Standards

Financial Statements for the year ended 31 December 2022

Contents

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Independent Auditor's Report

To the Shareholder and Management of ProCredit Bank Sha

Opinion

We have audited the financial statements of ProCredit Bank Sha (the Bank), which comprise the statement of financial position as of December 31, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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 IFRSs, 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 Company 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whetherdue 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 auditprocedures that are appropriate in the circumstances, but not for the purpose of expressing anopinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness ofaccounting 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 orconditions 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 separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton Sh.p.k.

Tirana, Albania
17 May 2023

Grant Thornton Sh.p.k. NIPT K 91923007 M Tirana ALBANIA Rruga Sami Frasheri, Kompleksi T.I.D. Hyrja B, Kati 1

Statutory Auditor
Olsiana Fekaj

PROCREDIT BANK SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

		In Lek'000		In EUR'000	
		31 December		31 December	
	Note	2022	2021	2022	2021
Interest income	9	1,273,212	1,145,847	10,706	9,358
Interest expense	9	(298,612)	(305,602)	(2,511)	(2,496)
Net interest income		974,600	840,245	8,195	6,863
Loss reversal/(allowance)	10	39,524	181,007	332	1,478
Net interest income after loss reversal/(allowance)		**1,014,124**	**1,021,252**	**8,528**	**8,341**
Fee and commission income	11	285,234	271,363	2,399	2,216
Fee and commission expense	11	(146,678)	(136,826)	(1,233)	(1,117)
Net fee and commission income		**138,556**	**134,537**	**1,165**	**1,099**
Result from foreign exchange transactions		123,966	99,634	1,042	814
Net other operating result	12	14,094	(96,555)	119	(789)
Operating Income		**1,290,740**	**1,158,868**	**10,854**	**9,465**
Personnel expense	14	(310,491)	(314,515)	(2,611)	(2,569)
Administrative expenses	13	(842,922)	(767,901)	(7,088)	(6,272)
Profit/(Loss) before tax		**137,327**	**76,452**	**1,155**	**624**
Income tax (expense)	15	(31,114)	(1,574)	(262)	(13)
Profit/(Loss) for the year		**106,213**	**74,878**	**893**	**612**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities measured at FVOCI		-	-	-	-
Deferred tax	15	-	-	-	-
Total comprehensive profit / (loss) for the year		**106,213**	**74,878**	**893**	**612**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1).

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 91.

PROCREDIT BANK SH.A.

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2022

		In Lek'ooo		In EUR'ooo	
		31 December		31 December	
	Note	2022	2021	2022	2021
Assets					
Cash and balances with Central Bank	16	7,521,155	5,016,078	62,242	41,538
Loans and advances to financial institutions	17	3,345,103	3,347,754	29,284	27,722
Loans and advances to customers	18	27,695,917	27,219,941	242,457	225,405
Investment securities at amortized cost (AC)	19	1,833,348	1,700,596	16,050	14,083
Other assets	20	293,113	265,731	2,566	2,200
Investment property	21	-	2,398	-	20
Property, plant and equipment	22	246,024	656,666	2,154	5,438
Intangible assets	23	6,313	7,720	55	64
Total assets		**40,940,973**	**38,216,884**	**358,408**	**316,470**
Liabilities					
Liabilities to banks	24	4,357,656	3,305,236	38,148	27,370
Liabilities to customers	25	27,022,115	26,428,254	236,559	218,849
Other borrowed funds	26	3,902,050	4,090,065	34,160	33,869
Corporate income tax liability	15	29,423	1,330	258	11
Other liabilities	28	695,951	226,649	6,093	1,877
Other provisions	28	33,770	45,184	296	374
Subordinated debt	27	815,675	857,898	7,141	7,104
Total liabilities		**36,856,640**	**34,954,616**	**322,653**	**289,455**
Shareholders' equity					
Share capital	29	5,711,469	4,995,616	50,000	41,368
Accumulated deficit		(2,338,990)	(2,441,458)	(20,513)	(20,226)
Legal reserves	29	711,854	708,110	6,232	5,864
Currency translation reserve		-	-	37	9
Total shareholders' equity		**4,084,333**	**3,262,268**	**35,755**	**27,015**
Total liabilities and shareholders' equity		**40,940,973**	**38,216,884**	**358,408**	**316,470**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1).

These financial statements have been approved by Management on 17 May 2023 and signed on their behalf by:

ProCredit Bank sh.a.

Kastriot Suka
Head of Risk Division

Mirsad Haliti
Member of the Management Board

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 91.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

In Lek'000	Share Capital	Legal Reserves	Retained Earnings/ Accumulated deficit	Total
Balance at 1 January 2021	**4,995,616**	**708,110**	**(2,516,337)**	**3,187,389**
Profit for the year	-	-	74,878	**74,878**
Other comprehensive incom e				
Investment Securities at FVOCI	-	-	-	-
Deferred tax	-	-	-	-
Total comprehensive income	-	-	**74,878**	**74,878**
Increase in Paid Up Capital (Note 29)-	-		-	-
Balance at 31 December 2021	**4,995,616**	**708,110**	**(2,441,458)**	**3,262,268**
Balance at 1 January 2022	**4,995,616**	**708,110**	**(2,441,458)**	**3,262,268**
Profit for the year	-	-	106,213	106,213
Transfer to legal reserve	-	3,744	(3,744)	-
Other comprehensive incom e				
Investment Securities at FVOCI	-	-	-	-
Deferred tax	-	-	-	-
Total comprehensive income	-	-	**106,213**	**106,213**
Increase in Paid Capital (Note 29)	715,853	-	-	**715,853**
Balance at 31 December 2022	**5,711,469**	**711,854**	**(2,338,990)**	**4,084,333**

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 34 to 91.

PROCREDIT BANK SH.A.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

	Note	In Lek'ooo 2022	In Lek'ooo 2021	In EUR'ooo 2022	In EUR'ooo 2021
Cash flows from operating activities					
Profit/Loss before income tax		137,327	76,451	1,155	624
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property, plant and equipment and investment property	21,22	72,216	73,959	607	604
Amortization of intangible assets	23	2,541	3,617	21	30
Impairment charge for credit losses	18	(39,525)	(181,007)	(332)	(1,478)
Interest income	9	(1,273,212)	(1,145,847)	(10,706)	(9,358)
Interest expense	9	298,612	305,602	2,511	2,496
Gain/Loss on disposal of assets		(26,060)	(4,377)	(219)	(36)
Charge of other provisions		7,603	143,685	64	1,174
		(820,499)	**(727,917)**	**(6,900)**	**(5,945)**
Changes in operating assets and liabilities:					
Loans and advances to financial institutions and compulsory reserve		(253,693)	(283,701)	(2,221)	(2,349)
Loans and advances to customers	18	(461,621)	(1,726,290)	(4,041)	(14,295)
Other assets	20	(127,925)	146,582	(1,120)	1,214
Liabilities to banks	24	(158,897)	(101,430)	(1,391)	(840)
Liabilities to customers	25	617,239	2,509,021	5,403	20,777
Other liabilities	28	379,271	(35,457)	3,320	(294)
		(826,124)	**(219,192)**	**(6,949)**	**(1,732)**
Interest received		1,285,892	1,135,922	11,257	9,406
Interest paid		(295,422)	(312,598)	(2,586)	(2,589)
Corporate income received		(3,020)	57,391	(26)	475
Net cash generated from/(used in) operating activities		**161,326**	**661,523**	**1,696**	**5,561**
Cash flows from investing activities					
Acquisition investment securities measured at AC		(1,833,654)	(1,700,696)	(16,052)	(14,083)
Proceeds from matured Investment securities measured at AC		1,700,596	1,293,444	14,887	10,711
Proceeds from sale of property, plant and equipment		585,864	49,538	5,129	410
Acquisition/ disposal of intangible assets		(2,076)	(334)	(18)	(3)
Acquisition of premises and equipment		(34,760)	(84,223)	(304)	(697)
Net cash (used in)/generated from investing activities		**415,970**	**(442,271)**	**3,642**	**(3,662)**
Cash flows from financing activities					
Proceeds from subordinated debt		-	-	-	-
Capital Increase		715,853	-	6,267	-
Proceeds from other borrowed funds		6,238,514	4,056,280	54,614	33,590
Repayment from other borrowed funds		(5,284,010)	(3,763,600)	(46,258)	(31,166)
Net cash generated from financing activities		**1,670,357**	**292,680**	**14,623**	**2,424**
Translation differences		-	-	2,557	998
Increase in cash and cash equivalents		**2,247,653**	**511,932**	**19,960**	**4,322**
Cash and cash equivalents at beginning of the year		**6,000,644**	**5,488,712**	**49,691**	**44,371**
Cash and cash equivalents at end of the year	16	**8,248,297**	**6,000,644**	**72,208**	**49,691**

EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 1).

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 91.

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for ProCredit Bank Sh.a. (the "Bank").
The Bank, originally known as FEFAD Bank, was incorporated and domiciled in Albania since February 1999. The Bank is licensed to operate in retail banking activity in Albania in accordance with Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is a joint stock company limited by shares set up in accordance with Law 9901, dated 14 April 2008 "On entrepreneurs and commercial companies".
As at 31 December 2022, the immediate and ultimate parent company of the Bank is ProCredit Holding AG & Co. KGaA holding 100% of the shares.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank operates under a full banking licence issued by the central Bank of Albania. The Bank participates in the state deposit insurance scheme managed by the Albanian Deposit Insurance Agency.
As at 31 December 2022 the Bank was operating from Head Office in Tirana, 1 branch, and 7 Self Service areas (24/7 Zones) located in Tirana, Durres, Korçe, Fier and Shkoder.

Registered address and place of business. The official address of the Bank is Rruga "Dritan Hoxha", 92, H.15, Njesia Administrative Nr.11, Tirana, Albania.

Board of Directors

Board of Directors members as of December 2022 are:
- Eriola Bibolli, Chairperson of the Board
- Christian Edgardo Dagrosa
- Wolfgang Bertelsmeier
- Jovanka Joleska Popovska
- Jordan Damcevski

Functional and presentation currency. The financial statements are presented in Albanian Lek ("Lek"), which is the Bank's functional currency, currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

Presentation in EUR
In addition to presenting the financial statements in the Bank's functional currency, supplementary information in EUR has been prepared for the convenience of users of the financial statements, translating Lek'000 to EUR'000.
The statement of financial position at 31 December 2022 has been translated at the official rate of BOA as at 31 December 2022 of Lek 114.23 to EUR 1 (2021: 120.76). The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the Lek amounts into EUR at the average exchange rate during the year of EUR 1: Lek 118.92 (2021: EUR 1: Lek 122.44).
The supplementary information in EUR does not form part of the audited financial statements.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

The Bank's CAR (capital adequacy ratio) at 31 December 2022 was 14.71% while the required minimum CAR for banks in Albania is 12%. During the year ended 31 December 2022, the bank generated a profit of LEK 106,213. There are no other factors or that may determine that the bank may not be in line with going concern principle. Support from the Group is also available on a need basis.
The Bank has no intention to liquidate or cease its operations during the year 2022. Management expects the Bank to continue to be profitable in the future, and its ability to continue as going concern will not be impaired.

2. Significant accounting policies (continued)

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (AC), net of the ECL provision.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

Fees and commissions

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur. Other fee and commission income which is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2. Significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial asset (i.e its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at Amortised cost (''AC'') and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss or gain. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical accounting estimates and judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

2. Significant accounting policies (continued)

Financial assets – classification and subsequent measurement – cash flow characteristics (continued)

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in ECL allowances and interest income, are recognised in profit or loss (within separate line items) and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 5 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 5 For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part according to delinquency and collateral coverage as regulated with local regulation. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset significant change in interest rate, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

2. Significant accounting policies (continued)

Financial assets – modification (continued)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for: (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all vault cash, interbank placements and mandatory reserves deposits with the Bank of Albania (BOA), with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the Central Bank. Mandatory cash balances with the Bank of Albania are carried at AC and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

2. Significant accounting policies (continued)

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

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL depending on the results of the business model assessment and SPPI test. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce or eliminate an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances applicable to financial assets at amortised cost are determined based on the forward-looking ECL models. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re measured and accounted for in accordance with the accounting policies for these categories of assets.

The Bank's repossessed collateral at the reporting date is mainly included in inventories within other assets and it is subsequently measured at the lower between cost, typically determined by execution procedures, and net realisable value, being the fair value of the collateral determined by external independent appraisers that hold a recognised and relevant professional qualification and licence with experience in valuation of similar location and category, less costs to realise the sale. Repossessed collateral that is held for the purpose either by earning rentals or capital appreciation is included in investment property. Movable collateral and immovable collateral with issues related to the legal titles are not recognised as an asset when repossessed. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

Credit related commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

2. Significant accounting policies (continued)

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

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

Investment property

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

Property, plant, and equipment

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period. The carrying values of property, plant and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the 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 assets. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.
Land is not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property, plant and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Description	Useful life 2022
Buildings	40 years
Business and office equipment	2-10 years

2. Significant accounting policies (continued)

Property, plant, and equipment (continued)

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The rights of use are amortised on a straight-line basis until the end of the lease term. Property, plant and equipment with useful lives of more than one year which fall under the materiality threshold of LEK 5,000 (2021: LEK 5,000) and, are also not material in aggregate, are expensed in profit or loss. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in Statement of Profit or Loss.

Intangible assets

Intangible assets primarily include acquired computer software licences capitalised on the basis of costs incurred to acquire and bring to use the specific software. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are entirely comprised of computer software which is amortised using the straight-line method over their estimated useful life of ten years.

Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. Generally, the Bank uses its average interest rate on business loans as the discount rate.

Liabilities to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from extinguishment of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Other borrowed funds

Other borrowed funds include loans taken from international financial institutions. Funds borrowed are carried at Amortized Cost.

Subordinated debt

Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at Amortized Cost.

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.
Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are
authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2. Significant accounting policies (continued)

Uncertain tax positions
The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest, and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

Provisions for liabilities and charges
Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Trade and other payables
Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Legal Reserve
According to law no. 9901 dated 14.4.2008 "On traders and trade companies", article 127, p. 49, point a, "From profit after tax, realized during the previous financial year, deducting expenses, the company must pass to the legal reserve, at least 5 percent of this value, until this reserve is equal to 10 percent of the registered capital of the company, or with a higher value, defined in the statute"

According to Regulation No. 69, dated 18.12.2014, Article 6, p.5 and 6, "Other reserves include general reserves, which are created by the bank in the amount of 1.25% to 2% of the total possible exposures and exposures of the bank weighted by risk. These reserves are created by deducting one-fifth of the profit and are freely used by the bank in order to cover the unidentified risks in its activity and do not reflect the reduction of the value of a certain asset. Banks, in cases when the created reserve fund falls below the required minimum level, is obliged to meet it within a time limit of 2 (two) years.

Foreign currency transactions
Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rates of the Bank of Albania ("BOA") at the reporting date.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the BOA, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.
Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

3. Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

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

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

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

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

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model.

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

Business model assessment (continued)

Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets. The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition. The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI. The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Repossessed collateral. In determining the net realizable value for repossessed collateral that is included in inventories within other assets, the Bank determines the fair value measurement based on reports of external, independent property valuators, having appropriate recognized statutory professional qualifications. Management has reviewed the appraisers' assumptions underlying discounted cash flow models used in the valuation, and confirms that factors such as similar properties and/or similar transactions, the discount rate applied have been appropriately determined based on the inputs and assumptions used and considering the market conditions at the end of the reporting period. Notwithstanding the above, management considers that the valuation of its repossessed collateral is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value even though the latest results have shown insignificant variances between actual proceeds and carrying values.

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

4.1. New Standards adopted as at 1 January 2022

Some accounting pronouncements which have become effective from 1 January 2021 and have therefore been adopted do not have a significant impact on the Bank's financial results or position.

These amendments do not have a significant impact on these Financial Statements and therefore the disclosures have not been made The adoption of these amendments to the existing standards has not led to any material changes in the Bank financial statements.

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

At the date of authorization of these financial statements, the following new standard and amendments to existing standards were in issue, but not yet effective:

- Other Standards and amendments that are not yet effective and have not been adopted early by the Group include:
  - IFRS 17 Insurance Contracts Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities from a Single Transaction

The Bank has elected not to adopt the new standard and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of the standard and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.
The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Credit risk

The Bank defines credit risk as the risk that the party to a transaction cannot fulfil its contractual obligations, not in full or not in time. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring placements and debt securities into the Bank's asset portfolio.
There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the Credit Risk Department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Management Department.
All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

The following table shows the maximum exposure to credit risk:

	31 December 2022	31 December 2021
Cash and balances with Central Bank	7,521,155	5,016,078
Loans and advances to banks and other financial institutions	3,345,103	3,347,754
Loans and advances to customers:		
Business Trade	10,435,886	10,277,223
Business Production	7,113,037	7,660,869
Business Agriculture	844,975	994,492
Business Transport	487,158	494,474
Business Other	6,098,746	5,757,356
Private Housing	2,420,705	1,856,121
Private Investment	128,225	109,486
Private Other	167,185	69,920
	27,695,917	**27,219,941**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Credit risk (continued)

	31 December 2022	31 December 2021
Investment securities measured at AC	1,833,348	1,700,596
Other financial assets	261,793	210,251
Total	**2,095,141**	**1,910,847**
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	2,172,203	2,527,860
Financial guarantees and Letters of Credit	1,356,364	1,314,558
Total	**3,528,567**	**3,842,418**

Off balance sheet	31 December 2022	31 December 2021
Credit commitments	2,172,203	2,527,860
Financial guarantees	1,356,364	1,314,558
Letters of Credit	-	-
Provisions recognised as liabilities	(13,909)	(20,349)
Total	**3,514,658**	**3,822,069**

Credit default risk from customers' credit exposures

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for all individually significant credit exposures. The starting point of the analysis is the information collected from the client, ranging from audited financial statements to self-declarations. The key criteria for credit exposure decisions are based on the financial situation of the client; in particular for individually insignificant credit exposures, supplemented by a review of liquid funds and the assessment of the creditworthiness of the client. Finally, the collateral requirements are generally higher for individually significant credit exposures. As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the bank and the higher the turnover of the client with the Group, the lower collateral requirements will be.

The decision-making process ensures that all credit decisions on individually significant exposures are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that our lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the above lending principles, the results of follow up on early warning indicators and appropriate monitoring, in particular of our individually significant credit exposures. This is a crucial element of our strategy for managing arrears in the current difficult economic environment that is affecting our clients.

The Bank rigorously follows up on the non-repayment of our credit exposures, which typically allows for swift identification of any increased potential for default on a credit exposure. The Bank applies strict rules regarding credit exposures for which there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank`s recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background. The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate that our loan portfolio exhibits.

The quality of the loan portfolio is monitored on an ongoing basis. The bank uses internal early warning indicators to identify any potential increase in credit risk. A significant increase in credit risk is detected typically during the client's financial analysis/ monitoring or by detecting any ad-hoc events that indicate increase in risk. Both trigger an update of client's Risk Classification. On the other hand, past due information is considered since the stages comprise all the exposures exceeding 30 days past due.

This approach implies the comprehensive analysis of various information sources including comprehensive analysis of borrowers' financial stance, past due information, data on the restructuring events and future macroeconomic prospects.

5. Financial risk management (continued)

Expected credit loss (ECL) measurement. ECL is an unbiased and probability-weighted amount calculated as the difference between the cash flows due to the bank in accordance with contractual terms of a financial instrument and the cash flows that the bank expects to receive. ECL is based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL is calculated using the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and is discounted to a present value.

The model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments. As such, the model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event. Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information. This model outlines three stages described below based on the development of credit risk since initial recognition.

Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition or that have low credit risk at the reporting date. For these exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date.

Stage 2 comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. For these assets, lifetime expected losses are recognised. Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. The Company's management estimates that 12-month and lifetime CCFs are materially the same. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.
Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year. The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk. The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Group's Credit Risk Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

5. Financial risk management (continued)
Expected credit loss (ECL) measurement (continued)

A significant increase in credit risk has occurred when at least one of the following events was detected:
- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days
- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- standard or watch restructuring event(s)
- multiple restructurings
- After the SICR is identified the lifetime expected credit loss must be determined.

Risk Classification System The risk classification system is based on many years of experience in working with small and medium clients and broad knowledge of the reasons for default. The risk classification system consists of the qualitative and quantitative characteristics of each client, which are weighted according to their importance and impact on the business activity, and consequently the performance of the credit exposure. As a result, a final score is calculated for each client ranging from 1 to 8, where 6 and 7 are considered as SICR events and 8 implies the highest degree of risk.
The Bank defines credit default risk from customers' credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customers' credit exposures is based on a thorough implementation of the bank's lending principles:
- intensive analysis of the debt capacity of the Bank's clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understoodby knowledgeable third parties
- rigorous avoidance of over indebting our clients
- building a personal and long-term relationship with the client and maintaining regular contact
- close monitoring of loan repayments and early warning indicators
- practising tight arrears management exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- Rigorous application of the "dual control principle".

The Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.
An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of at least three months. In addition, to the fulfilling criteria, the bank performs a full financial monitoring of previously defaulted exposures before reclassifying them as not defaulted. The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1).

If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the bank monitors whether that indicator continues to exist or has changed. The bank discusses on monthly basis, through the asset quality indicators committee, all cases identified with SICR and based on the monitoring feedback and existence of indicators decides the proper classification of the exposures.
ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

5. Financial risk management (continued)

Risk Classification System (continued)
In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Calculation of Expected Credit Loss:

The following parameters are used in the calculation of expected credit loss.

Exposure at default (EAD)

EAD is the expected exposure amount at the time of default; it is derived from the currently outstanding receivable from the customer adjusting for future changes under the applicable contractual conditions. Thus, the EAD consists of the expected exposures (including credit risk from off-balance sheet business) at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

Probability of default (PD)

The probability of a loan defaulting within a certain period of time is derived from historical default events. These historical default data includes the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The Bank uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. The last step in the process would be the calculation of lifetime PDs on exposure level.

Loss Given Default (LDG)

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. In order to establish the ECL parameters, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Bank's Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

5. Financial risk management (continued)

Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. The Bank manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

Foreign currency risk specifies the risk of negative effects on an institution's financial results caused by changes in exchange rates, which are: 1. Currency risk of the Bank's income statement; 2. Currency risk of the capital adequacy; 3. Foreign currency investment risk (not applicable for the Bank).

As a matter of principle, the Bank does not engage in proprietary trading and does not enter speculative positions on foreign exchange markets for the purpose of generating potential additional income. Therefore, the Bank is a non-trading book credit institution. The Bank aims to close currency positions and ensures that an open currency position remains within the conservative limits at all times.

Foreign Currency Risk Management Policy and Central Bank Regulation on Open Currency Position Risk Management, limit currency risk by setting limits and reporting triggers for open currency positions in relation to the regulatory capital. Changes to the limits and reporting triggers in the policy can only be made by the PC Group ALCO or Group Risk Management Committee. Compliance to approved OCP limits are regularly reviewed and monitored by Risk Management Department. Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in Lek):

	2022	2021
USD	107.05	106.54
EUR	114.23	120.76
GBP	128.92	143.95
CHF	116.13	116.82
CNY	15.44	16.81

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2022 and 2021, translated into Lek'000.

31 December 2022	LEK	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	2,525,687	4,715,494	279,975	-	**7,521,155**
Loans and advances to banks	110,011	2,328,009	892,698	14,384	**3,345,103**
Securities measured at amortised cost (AC)	1,833,348	-	-	-	**1,833,348**
Loans and advances to customers	11,403,538	15,645,945	646,434	-	**27,695,917**
Other financial assets	82,513	159,949	19,331	-	**261,793**
Total Financial Assets	**15,955,096**	**22,849,397**	**1,838,437**	**14,384**	**40,657,315**
Open forward position (asset)	-	-	-	-	-
Liabilities					
Liabilities to banks	271,332	4,086,324	-	-	**4,357,656**
Liabilities to customers	11,439,968	13,871,770	1,698,703	11,674	**27,022,115**
Other borrowed funds	-	3,902,050	-	-	**3,902,050**
Other financial liabilities	164,096	351,781	144,668	125	**660,670**
Subordinated debt	-	815,675	-	-	**815,675**
Total Financial Liabilities	**11,875,396**	**23,027,600**	**1,843,371**	**11,799**	**36,758,166**
Open forward position (liability)	-	-	-	-	-
Net on-balance sheet currency position	**4,079,700**	**(178,203)**	**(4,934)**	**2,585**	**3,899,150**
Off-balance sheet commitments and guarantees					
Credit commitments	662,965	1,485,852	23,386	-	**2,172,203**
Off balance sheet - letters of credit	-	-	-	-	-
Off balance sheet - bank guarantees	730,680	555,489	70,195	-	**1,356,364**
Total credit related commitments	**1,393,645**	**2,041,341**	**93,581**	**-**	**3,528,567**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Foreign currency risk (continued)

31 December 2021	LEK	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,944,230	2,762,552	309,296	-	**5,016,078**
Loans and advances to banks	-	2,935,196	403,855	8,703	**3,347,754**
Securities measured at amortised cost (AC)	1,700,596	-	-	-	**1,700,596**
Loans and advances to customers	12,636,191	13,970,318	613,432	-	**27,219,941**
Other financial assets	88,039	104,041	18,171	-	**210,251**
Total Financial Assets	**16,369,056**	**19,772,107**	**1,344,754**	**8,703**	**37,494,622**
Open forward position (asset)	-	253,596	8,442	-	**262,038**
Liabilities					
Liabilities to banks	275,391	3,029,845	-	-	**3,305,236**
Liabilities to customers	12,556,419	12,512,153	1,351,361	8,321	**26,428,254**
Other borrowed funds	400,007	3,690,058	-	-	**4,090,065**
Other financial liabilities	72,425	104,875	5,668	22	**182,990**
Subordinated debt	-	857,898	-	-	**857,898**
Total Financial Liabilities	**13,304,242**	**20,194,829**	**1,357,029**	**8,343**	**34,864,443**
Open forward position (liability)	253,710	8,453	-	-	**262,163**
Net on-balance sheet currency position	**2,811,104**	**(177,579)**	**(3,833)**	**360**	**2,630,054**
Off-balance sheet commitments and guarantees					
Credit commitments	812,450	1,641,514	73,896	-	2,527,860
Off balance sheet - letters of credit	-	-	-	-	-
Off balance sheet - bank guarantees	710,058	530,276	74,224	-	1,314,558
Total credit related commitments	**1,522,508**	**2,171,790**	**148,120**	**-**	**3,842,418**

The Bank's sensitivity analysis takes into consideration the 10-year historical exchange rates movements of the ALL against the foreign currencies, EUR and USD. Following the calculated historical shocks and related financial impact based on the Bank's open currency positions, the sensitivity towards exchange rates risk is measured and reported to key management personnel and included in the ICAAP calculations. This analyse is based on statistical methods and it represents management's assessment of effects from reasonably possible changes in foreign exchange rates.

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank, given its present currency risk exposure. The calculation of such impact based on 31 December 2022 data and 31 December 2021 (under a standard scenario) is presented below:

			Effect on profit or loss	
Currency	**Historical shocks 2022**	**Historical shocks 2021**	**31 December 2022**	**31 December 2021**
EUR	+2.27%	+1.93%	(4,540)	(1,687)
USD	-4.58%	+4.68%	275	(246)
Total			**(4,265)**	**(1,933)**

5. Financial risk management (continued)

Foreign currency risk (continued)

Exchange rate shock is determined as follows:

- For a period of ten years, the daily exchange rates for each currency pair are listed. The currency pairs are thebank's functional currency (Lek) against each of the foreign currencies of the bank's OCPs. The year-on-year change(i.e. holding period = one year) is identified as the movement, expressed as a percentage, of the exchange rate of each of the foreign currencies.
- The profit or loss impact for each of the bank's OCPs is calculated for each simultaneous year-on-year change (by multiplying for each currency the OCP by each year-on-year exchange rate change).
- The simultaneous historical exchange rate movements of all currencies leading to the 1st percentile largestaggregated loss impact are taken.

Economic capital necessary to cover currency risk is obtained by multiplying each OCP by its respective exchange rate shock and these results are aggregated, i.e. positive and negative impacts are netted.

Interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the Bank's economic value and its interest earnings and eventually capital. Changes in market interest rates can affect the Bank in a direct way, for balance sheet positions indexed to market reference rates (i.e. customer loans with variable interest rates, indexed to 12M TRIBOR, 12M T-Bills rates, 12M EURIBOR and 12M LIBOR, or EUR borrowed funds indexed to 6M and 12M EURIBOR). In addition, other positions might be affected accordingly, because of a pricing decision, in order to reflect the market changes.
The Bank does not aim to earn profits through speculation in the interest rate market. Rather, it seeks to ensure that its interest rate structure is sufficiently balanced across all maturities by staying within the limits defined in the Interest Rate Risk Management Policy and Central Bank Instruction on Interest Rate Risk Management. The Bank achieves this by matching repricing profiles between assets and liabilities.

The bank monitors interest rate changes throughout two dimensions:

1) Economic perspective – the risk of interest rate changes resulting in a loss in the present value of all interest rate sensitive positions. The economic value risk is measured by the economic value impact which represents the change in present value of the Bank's future cash flows which would result in the case of an interest rate shock. The economic value risk has a longer term perspective and therefore identifies the risk arising from long term re-pricing mismatches. The size of the economic value impact depends on the repricing structure and characteristics of interest sensitive assets and liabilities, as well as on the assumed interest rate change.

2) Earnings perspective – the risk of interest rate changes resulting in a loss in the profit and loss account in the balance sheet within a defined timeframe. Interest earnings risk considers how changes in interest rate could affect the Bank's profitability, over a defined time horizon, given its current re-pricing structure. The interest earnings risk has a short term perspective (up to one year) and identifies the risk arising from shorter term re-pricing mismatches. It is measured by the interest earnings impact2, which displays the change in the net interest income over the one year time horizon, factoring in also the effect of fair-value change of financial instruments.

Both analyses are performed using an instant shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts, which is done for all interest rate risk relevant currencies. Only by assessing both perspectives (i.e. the long and the short term) simultaneously, it is possible to determine the full scope of the interest rate risk exposure. Moreover, besides the EUR or USD interest rates frequently used as benchmarks, other market-relevant interest rates are also used.
Considering Lek, EUR and USD denominated asset and liability structures as at 31 December 2022 and 2021, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest rate risk (continued)

Lek Interest Sensitivity Gap At 31 December 2022		**Up to 1 month**	**1-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**No interest sensitive**
Assets									
Cash on hand		-	-	-	-	-	-	-	1,634,852
Balances with Central Banks		5,872,016	-	-	-	-	-	5,872,016	14,402
Current accounts with banks		3,188,377	-	-	-	-	-	3,188,377	90,890
T-bills and marketable securities	Fixed	983,238	606,271	259,552	-	-	-	1,849,061	(15,713)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		110,036	-	-	-	-	-	110,036	-
Loans and advances to	Fixed	1,002,583	4,339,433	5,323,592	1,192,524	577,249	45,122	12,480,503	-
customers	Var.	2,136,771	7,087,287	7,119,826	293,424	452,603	260,176	17,350,087	-
Off balance sheet items		70,328	894,672	1,199,958	-	-	-	2,164,958	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**13,363,349**	**12,927,663**	**13,902,928**	**1,485,948**	**1,029,852**	**305,298**	**43,015,038**	**1,724,431**
Liabilities									
Current accounts from banks		158,029	3,039,080	1,239,416	67,151	569,813	-	5,073,489	-
Current accounts from customers		406,280	1,293,490	2,973,498	1,602,220	51,293	-	6,326,781	11,826,293
Deposits from customers		655,017	1,909,773	4,489,819	1,587,613	558,171	132,145	9,332,538	-
Borrowings and subordinated	Fixed			-	-	-	-		-
debt	Var.	909,609	3,786,756	-	-	-	-	4,696,365	-
Off balance sheet items			-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**2,128,935**	**10,029,099**	**8,702,733**	**3,256,984**	**1,179,277**	**132,145**	**25,429,173**	**11,826,293**
IR sensitivity gap-open position		**11,234,414**	**2,898,564**	**5,200,195**	**(1,771,036)**	**(149,425)**	**173,153**	**17,585,865**	**-**

EUR Interest Sensitivity Gap At 31 December 2022		**Up to 1 month**	**1-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**Not interest sensitive**
Assets									
Cash on hand		-	-	-	-	-	-	-	512,897
Balances with Central Banks		4,202,597	-	-	-	-	-	4,202,597	-
Current accounts with banks		2,295,681	-	-	-	-	-	2,295,681	90,890
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to	Fixed	409,300	1,702,443	2,900,338	778,862	283,889	23,027	6,097,859	-
customers	Var.	1,396,037	4,351,953	4,457,015	195,536	311,983	187,530	10,900,054	-
Off balance sheet items		41,819	648,693	791,581				1,482,093	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**8,345,434**	**6,703,089**	**8,148,934**	**974,398**	**595,872**	**210,557**	**24,978,284**	**603,787**
Liabilities									
Current accounts from banks		-	2,924,719	1,239,416	67,151	569,813	-	4,801,099	-
Current accounts from customers		284,665	885,755	2,036,174	1,062,056	-	-	4,268,650	6,731,362
Deposits from customers		195,130	514,119	1,740,962	349,628	175,399	106,824	3,082,062	-
Borrowings and subordinated	Fixed	-	-	-	-	-	-	-	-
debt	Var.	909,609	3,786,756	-	-	-	-	4,696,365	-
Off balance sheet items		-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,389,404**	**8,111,349**	**5,016,552**	**1,478,835**	**745,212**	**106,824**	**16,848,176**	**6,731,362**
IR sensitivity gap-open position		**6,956,030**	**(1,408,260)**	**3,132,382**	**(504,437)**	**(149,340)**	**103,733**	**8,130,108**	**-**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest rate risk (continued)

USD Interest Sensitivity Gap At 31 December 2022		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	74,807
Balances with Central Banks		199,565	-	-	-	-	-	199,565	5,603
Current accounts with banks		892,696	-	-	-	-	-	892,696	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	2,256	332,564	69,133	1,405	-	-	405,358	-
	Var.	14,179	51,919	191,514	4,876	8,775	1,732	272,995	-
Off balance sheet items		-	6,496	16,803	-	-	-	23,299	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**1,108,696**	**390,979**	**277,450**	**6,281**	**8,775**	**1,732**	**1,793,913**	**80,410**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		12,739	42,770	98,340	102,556	51,293		307,698	816,021
Deposits from customers		52,891	374,924	178,035	104,889	6,644	-	717,383	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**65,630**	**417,694**	**276,375**	**207,445**	**57,937**	**-**	**1,025,081**	**816,021**
IR sensitivity gap open position		**1,043,066**	**(26,715)**	**1,075**	**(201,164)**	**(49,162)**	**1,732**	**768,832**	**-**

Lek Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	810,632
Balances with Central Banks		743,793	-	-	-	-	-	743,793	389,805
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	653,317	1,052,330	-	-	-	-	1,705,647	333,701
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	633,686	2,026,606	2,990,580	576,288	392,108	75,701	6,694,970	-
	Var.	883,719	2,932,303	3,146,354	-	-	-	6,962,375	-
Off balance sheet items		32,653	214,665	563,268	-	-	-	810,586	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**2,947,168**	**6,225,905**	**6,700,202**	**576,288**	**392,108**	**75,701**	**16,917,372**	**1,534,138**
Liabilities		-	-	-	-	-	-	-	-
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		16,250	-	-	-	-	-	16,250	4,612,147
Deposits from customers		678,364	1,821,392	3,601,435	1,483,312	341,863	27,467	7,953,833	-
Borrowings and subordinated debt	Fixed	570,426	105,304	-	-	-	-	675,731	-
	Var.		-	-	-	-	-	-	-
Off balance sheet items		253,710	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,518,750**	**1,926,696**	**3,601,435**	**1,483,312**	**341,863**	**27,467**	**8,645,813**	**4,612,147**
IR sensitivity gap-open position		**1,428,418**	**4,299,209**	**3,098,767**	**(907,024)**	**50,244**	**48,234**	**8,271,559**	**-**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest rate risk (continued)

EUR Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	570,306
Balances with Central Banks		2,192,246	-	-	-	-	-	2,192,246	-
Current accounts with banks		2,775,760	-	-	-	-	-	2,775,760	168,135
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	562,796	1,575,552	2,464,306	617,806	312,348	17,724	5,550,532	-
	Var.	1,265,813	3,646,451	4,681,974	-	-	-	9,594,238	-
Off balance sheet items		282,699	500,205	1,104,350	-	-	-	1,887,255	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**7,079,314**	**5,722,208**	**8,250,630**	**617,806**	**312,348**	**17,724**	**22,000,030**	**738,441**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		14,839	-	-	-	-	-	14,839	6,756,037
Deposits from customers		382,790	1,151,096	3,151,978	944,897	47,707	83,719	5,762,187	-
Borrowings and subordinated debt	Fixed	-	335,213	2,735,963	1,046,087	-	-	4,117,262	-
	Var.	1,212,776	2,612,689	-	-	-	-	3,825,465	-
Off balance sheet items		8,453	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,618,858**	**4,098,998**	**5,887,941**	**1,990,983**	**47,707**	**83,719**	**13,719,754**	**6,756,037**
IR sensitivity gap-open position		**5,460,456**	**1,623,210**	**2,362,688**	**(1,373,178)**	**264,641**	**(65,995)**	**8,280,277**	**-**

USD Interest Sensitivity Gap At 31 December 2021		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	136,956
Balances with Central Banks		145,493	-	-	-	-	-	145,493	26,848
Current accounts with banks		403,854	-	-	-	-	-	403,854	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	12,752	57,287	280,284	554	-	-	350,877	-
	Var.	16,906	66,149	219,873	-	-	-	302,929	-
Off balance sheet items		8,522	24,288	49,234	-	-	-	82,044	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**587,528**	**147,725**	**549,391**	**554**	**-**	**-**	**1,285,198**	**163,803**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		-	-	-	-	-	-	-	359,904
Deposits from customers		86,091	172,128	436,043	239,466	60,259	-	993,987	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**86,091**	**172,128**	**436,043**	**239,466**	**60,259**	**-**	**993,987**	**359,904**
IR sensitivity gap- open position		**501,436**	**(24,403)**	**113,348**	**(238,912)**	**(60,259)**	**-**	**291,210**	**-**

The table below summarizes the effects based on the internal analyses and implemented methodology for quantification of interest rate risk. The analysis and calculations are done to quantify the effect of the interest rates movements on economic value and interest earnings over a 12-month time horizon, and consequently to analyse and mitigate related risks, by improving the repricing structure, when this is possible. Considering EUR and USD denominated asset and liability structures as at 31 December 2022 and 2021, and assuming a parallel shift of interest rate for +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, based on interest earnings effects, where negative figures represent possible losses and decrease of net equity.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest rate risk (continued)

Estimated economic value effect	2022		2021	
	+200 bp	-200 bp	+200 bp	-200 bp
Change Lek market rates	(31,524)	32,026	(50,120)	22,141
Change EUR market rates	(33,742)	36,727	(6,200)	(53,416)
Change USD market rates	9,409	(9,825)	11,146	(13,731)
Total effect (netted)	(55,857)	58,928	(45,174)	(45,005)
As % of capital	-1.15%	1.21%	-1.10%	-1.09%

Liquidity risk

Liquidity risk is the risk that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The Bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in view of potential extraordinary circumstances. Liquidity risk management includes as well the longer-term perspective (structural), defined as funding risk. Funding risk is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates. It can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate liquidity and funding risk, the Bank diversifies funding sources and manages the assets with liquidity caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls.

The Bank aims to keep the expected cumulative maturity gap positive, for at least a period of 90 days (survival period at 90 days, being a limit for the standard scenario and trigger for extended stress scenario, as defined in the Liquidity Management Policy). As for December 2022, the survival period of the Bank for all currencies in total is calculated above 360 days.

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

31 December 2022	Demand and less than 1 Month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	7,521,155	-	-	-	-	**7,521,155**
Investement securities measured at AC	749,691	1,084,597	-	-	-	**1,834,288**
Loans and advances to costumers	414,017	3,514,945	4,035,238	11,382,914	8,348,804	**27,695,917**
Other financial assets	261,792	-	-	-	-	**261,792**
Total	**8,946,655**	**4,599,542**	**4,035,238**	**11,382,914**	**8,348,804**	**37,313,152**
Liabilities						
Liabilities to bank	132,491	2,283,255	1,484,990	456,920	-	**4,357,656**
Costumer accounts - Private	10,315,964	483,994	400,973	374,862	-	**11,575,793**
Costumer accounts - Business	7,823,891	1,636,308	3,445,200	2,540,922	-	**15,446,322**
Other borrowed funds	389,477	771,053	571,150	2,170,370	-	**3,902,050**
Subordinated debt	-	16,065	-	-	799,610	**815,675**
Gross loan commitments	2,172,203	-	-	-	-	**2,172,203**
Financial guarantees	1,356,364	-	-	-	-	**1,356,364**
Other financial liabilities	660,670	-	-	-	-	**660,670**
Total potential future payments for financial obligations	**22,851,060**	**5,190,676**	**5,902,313**	**5,543,075**	**799,610**	**40,286,733**
Liquidity gap arising from financial instruments	**(13,904,405)**	**(591,134)**	**(1,867,075)**	**5,839,840**	**7,549,194**	**(2,973,581)**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

5. Financial risk management (continued)

Liquidity risk (continued)

31 December 2021	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,016,078	-	-	-	-	**5,016,078**
Investment securities measured at AC	-	1,701,230	-	-	-	**1,701,230**
Loans and advances to customers	852,756	1,407,928	6,228,391	9,963,182	8,767,684	**27,219,941**
Other financial assets	210,251	-	-	-	-	**210,251**
Total	**6,079,085**	**3,109,158**	**6,228,391**	**9,963,182**	**8,767,684**	**34,147,500**
Liabilities						
Liabilities to banks	111,236	537,280	966,080	1,690,640	-	**3,305,236**
Customer accounts - Business	9,209,627	57,658	1,444,837	344,327	-	**11,056,450**
Customer accounts - Private	8,083,940	914,843	3,888,560	2,484,461	-	**15,371,804**
Other borrowed funds	1,621,912	-	-	2,468,153	-	**4,090,065**
Subordinated debt	-	12,578	-	-	845,320	**857,898**
Gross loan commitments	2,527,860	-	-	-	-	**2,527,860**
Financial guarantees	1,314,558	-	-	-	-	**1,314,558**
Other financial liabilities	182,990	-				**182,990**
Total potential future payments for financial obligations	**23,052,124**	**1,522,360**	**6,299,477**	**6,987,581**	**845,320**	**38,706,861**
Liquidity gap arising from financial instruments	**(16,973,039)**	**1,586,798**	**(71,086)**	**2,975,601**	**7,922,364**	**(4,559,361)**

In order to measure short-term liquidity risk, the Bank uses the contractual liquidity data as a basis and adjustments are made wherever it is not sensible to apply the contractual maturity from a liquidity risk perspective. The adjustments are done when calculating the sufficient liquidity indicator (SLI), survival period and stress tests as defined in the Liquidity Risk Management Model (LRM Model), approved and applicable at the Group level. The adjustments are made by applying certain assumptions, which transform the contractual maturities of highly liquid assets, inflows and liabilities due in the tested period into maturities which are assumed to depict their behaviour in case if the defined scenarios materialize. Assumptions have been chosen with the aim of being prudent based on historical analyses, regulations, theoretical foundations, operational requirements and risk managers and expert opinions.

Following the above, i.e. the current and saving deposits are classified as due on demand and maturing within one month, based on their contractual maturity. As a result, the contractual liquidity gap of up to twelve months results negative. However, the possibility that such large amounts of customer deposits, amounting to approx. 63% of total deposits, will leave the Bank within 1 month or even 12 months period is very unlikely and not historically evidenced. Following the LRM Model, current and savings accounts are distributed in different time buckets, by applying different outflows rates, as resulted from the related historical analyses over a period of more than 10 years (including the 2008 financial crises) and by covering as well potential risks related to deposits concentration (dependency from large depositors). Following this the applicable 1 month outflow rates vary from 9.5%, to 12.0% and 15.0%, respectively for standard and stress scenarios, being higher than any historical evidence. In any event that these are not sufficient, or increased concentration risk is assessed, the Bank has to adjust / increase these rates accordingly and still is required to comply with the related limits.

In addition, the Bank is maintaining a portfolio of highly marketable financial assets that can easily be liquidated or used under a repo mechanism, as a protection against any unforeseen interruption to cash flows. From a liquidity management point of view, these assets fall under the first maturity bucket and provide therefore a buffer in case of unexpected outflows. On the other side, the Bank has established and maintains relationships with local and international counterparts, as well as with different IFI-s, in relation to any needs for raising funds in the Money Market or having access to longer term funding alternatives, based on careful liquidity projections performed on monthly bases. It should be emphasised that the deposit strategy remains the main focus of the Bank, aiming to provide stable and diversified funding from the targeted core clientele, in order to cover the expected outflows as well as to support the growth. The Liquidity Risk Management is based on and supported by a well-designed risk management framework, consisting of the Liquidity Strategy, Liquidity Risk Management Policy (including LRM Model) and Procedures, Liquidity Contingency Plan, Recovery Plan, specialized responsible structures and steering committees (ALCO and RMCO). The Management of the Bank is monitoring the liquidity risk management and all related liquidity ratios and indicators against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the short-term liquidity gap is being managed accordingly.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

6. Management of capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' presented on the face of the balance sheet, are:

- to comply with the capital requirements set by the Bank of Albania;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by Bank of Albania, for supervisory purposes.

The required information is filed with Bank of Albania on a quarterly basis. Bank of Albania requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of 1 billion Lek and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel II ratio') at or above minimum of 12%. %. In addition, the bank ensures to fulfil at any times additional capital requirements, as resulted by the local ICAAP reported to the Central Bank, as well as applicable macro-prudential buffers, as defined in the related regulation and Governor Decisions.

Regulatory capital is the Bank's capital, calculated pursuant to the requirements of the Bank of Albania regulations to cover credit risk, market risk and operational risk. The Bank's regulatory capital is divided into two tiers. The Bank calculates the regulatory capital as the sum of Tier 1 capital and Tier 2 capital, considering the deductions pursuant to the requirements prescribed in the Bank of Albania regulations. The Banks calculates risk-weighted exposures as the sum of the following elements:
a) Items of exposures and possible exposures weighted for the credit, or counterparty risk;
b) Capital requirements for market risks; and
c) Capital requirement for operational risk.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2022 and 2021. During these two years, the Bank complied with all of the externally imposed capital requirements. Should be noted that the following amounts are based on Bank of Albania regulations and do not necessarily agree to the amounts shown in these financial statements.

Tier 1 capital	**2022**	**2021**
Share capital	5,711,469	4,995,616
Statutory reserve	711,854	708,110
Profit for the year	-	45,604
Statutory accumulated (losses)/profits	(2,345,150)	(2,387,008)
Statutory intangible assets	(6,218)	(7,625)
Total qualifying Tier 1 capital	**4,071,955**	**3,354,698**
Tier 2 capital		
Subordinated liability	816,521	858,560
Other deductions	-	-
Total qualifying Tier 2 capital	**816,521**	**858,560**
Total regulatory capital	**4,888,476**	**4,213,258**
Total risk-weighted assets	**29,656,478**	**28,646,609**
Risk-weighted assets:		
On-balance sheet	26,046,018	25,263,933
Off-balance sheet	1,507,817	1,494,018
Risk assets for operational risk	2,102,643	1,888,658
Risk assets for market risk	-	-
Total risk-weighted assets	**29,656,478**	**28,646,609**
Tier I capital adequacy ratio	**13.73%**	**11.71%**
Total capital adequacy ratio	**16.48%**	**14.71%**

Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel III). The capital management of the Bank is governed by the Bank Policy on ICAAP. Regulatory and Basel III capital ratios, the Tier 1 leverage ratio ICAAP triggers and limit are monitored on a monthly basis by the Bank's ALCO/Risk Management Committee as well as reported to the respective Group's structures.

6. Management of capital (continued)

ICAAP – Economic perspective

In addition to the above mentioned, which aims to ensure that the Bank can meet all regulatory and external obligations and resulting internal requirements on an ongoing basis in the medium term (normative perspective), the Bank complements its ICAAP with an economic perspective, as well.
The economic perspective mainly serves to safeguard the bank's economic substance in the long term. The assessment is expected to cover the full universe of risks that may have a material impact on the capital position from an economic perspective. Own processes and methodologies are used to identify and quantify risks, and to set aside internal capital for expected losses (insofar as these are not considered in the determination of internal capital) and unexpected losses. The methods used to calculate the amount of economic capital required to cover the different risks to which the bank is exposed are based on statistical models, to the extent that appropriate models are available.
For each risk category, the economic capital required to cover the current level of risk arising in a normal operating environment (standard scenario) is calculated on a monthly basis. Economic capital requirements are then compared with the resources available to cover risk.

The following concepts are used to calculate potential losses in the different risk categories:

- Credit risk (customers): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution are calculated. The historical loss rates in different arrears categories are applied to the loan portfolio to calculate potential loan losses and therefore economic capital required. For standard scenario, loss rates based on 99% confidence level are applied and for stress scenario based on a 99.9% confidence level.
- Counterparty risk (issuer risk included): To quantify the amount of economic capital that is needed to cover the counterparty risk (including issuer risk) of the bank a standard measure, Value at Risk (VaR) is used to express the degree of credit risk inherent in the portfolios. The VaR is defined for a level of confidence and represents a loss amount, which based on the modelled loss distribution, will not be exceeded within a given time-horizon (i.e. one year for standard ICAAP – economic perspective) with the pre-defined (e.g. 99% or 99.9%) level of confidence. The credit risk expressed in the VaR measure is further separated into an "expected" and an "unexpected" loss part. The mean of the loss distribution is commonly denoted as "expected loss" (EL) – representing that part of VaR losses which can be expected to occur under standard conditions. The amount by which VaR exceeds EL is denoted as "unexpected loss" (UEL) – the part of VaR, which represents extreme loss scenarios.
- Foreign currency risk: The calculation of economic capital required to cover currency risk is based on the open currency position of the bank and an exchange rate shock in the respective currency. The simultaneous historical year-to-year exchange rate movements of all currencies leading to the 1st percentile largest aggregated loss impact (in absolute value) represent the economic capital necessary to cover currency risk.
- Interest rate risk: The calculation of economic capital necessary to cover interest rate risk is based on the interest rate risk exposure (repricing gap) in EUR, USD and the local currency of the bank (Lek), and interest rate shocks in the respective currencies. This is captured by the economic value impact indicator and calculated using instantaneous parallel shifts of yield curves. Two interest rate shock scenarios (parallel up and parallel down) are determined per currency:
  a) For EUR and USD a shock of 200 basis points up and down is used for the yield curves that reflect the interest rate environment on international markets.
  b) For the local currency as well as for EUR and USD: a parallel up and down shock, that reflects the local specifics of the market interest rates is determined, while ensuring that a minimum shock of ±200 basis points is applied (daily interest rates for each risk-free yield curve over more than ten years are used to derive the interest rate shock). Economic capital necessary to cover interest rate risk is obtained as the absolute sum of the currency specific net present value impacts, while taking into account only the adverse scenario.
- Operational risk: The value used for the internal capital adequacy calculation equals the capital charge under the Standardised Approach. Under this approach, the business activities of the Bank are subdivided into standardised business lines. The capital requirement for a given business line corresponds to a fixed percentage ("beta factor") of a relevant indicator. This indicator is calculated for each business line individually and equals the average over three years' annual gross income. The beta factor for each business line has been defined and serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregat level of gross income for that business line. The capital requirement for operational risk corresponds to the sum of capital requirements in the individual business lines.

7. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.
For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models
The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 inputs:
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the bank can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Inputs:
Other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs:
Unobservable inputs for the asset or liability. If observable market rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates are determined taking into consideration the cost of funds depending on currencies and maturities plus a risk margin. Internal rates are regularly compared to those applied for third party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.
The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

7. Fair values of financial instruments (continued)

(b) Financial instruments not measured at fair value for which fair value is disclosed

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

				Fair value hierarchy		
As of 31 December 2022	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	7,521,155	7,521,155	-	7,521,155	-
Loans and advances to banks	AC	3,345,103	3,345,103	-	3,345,103	-
Loans and advances to customers	AC	27,695,917	27,530,638	-	-	27,530,638
Investment securities	AC	1,833,348	1,826,454	-	1,826,454	-
Other assets (shares)	FVOCI	181	181	-	181	-
Other financial assets	AC	261,793	261,793	-	261,793	-
Total		**40,657,497**	**40,485,324**	**-**	**12,954,686**	**27,530,638**
Financial Liabilities						
Liabilities to banks	AC	4,357,656	4,357,656	-	4,357,656	-
Liabilities to Customers	AC	27,022,115	27,174,807	-	17,687,259	9,487,548
Borrowings	AC	3,902,050	3,827,357	-	573,289	3,254,068
Subordinated debts	AC	815,675	815,675	-	815,675	-
Other financial liabilities	AC	660,670	660,670	-	660,670	-
Total		**36,758,166**	**36,836,165**	**-**	**24,094,549**	**12,741,616**

				Fair value hierarchy		
As of 31 December 2021	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	5,016,078	5,016,078	-	5,016,078	-
Loans and advances to banks	AC	3,347,754	3,347,754	-	3,347,754	-
Loans and advances to customers	AC	27,219,941	26,441,199	-	-	26,441,199
Investment securities	AC	1,700,596	1,701,699	-	1,701,699	-
Other assets (shares)	FVOCI	192	192	-	192	-
Other financial assets	AC	210,251	210,251	-	210,251	-
Total		**37,494,812**	**36,717,173**	**-**	**10,275,974**	**26,441,199**
Financial Liabilities						
Liabilities to banks	AC	3,305,236	3,305,236	-	3,305,236	-
Liabilities to Customers	AC	26,428,254	26,553,396	-	16,711,834	9,841,562
Borrowings	AC	4,090,065	4,049,339	-	2,283,470	1,765,869
Subordinated debts	AC	857,898	857,898	-	857,898	-
Other financial liabilities	AC	182,990	182,990	-	182,990	-
Total		**34,864,443**	**34,948,859**	**-**	**23,341,428**	**11,607,431**

Categories: AC - Amortised cost

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

8. Presentation of Financial Instruments by Measurement Category

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presentedin OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

As at 31 December 2022	FVOCI	AC	Total
Cash and current accounts with banks	-	7,521,155	7,521,155
Loans and advances to banks	-	3,345,103	3,345,103
Other financial assets	-	261,793	261,793
Loans to Business	-	**24,979,802**	**24,979,802**
Loans to customers	-	18,112,817	18,112,817
Overdrafts	-	6,866,985	6,866,985
Loans to Private	-	**2,716,115**	**2,716,115**
Loans to customers	-	2,679,222	2,679,222
Overdrafts	-	33,887	33,887
Credit Cards	-	3,006	3,006
Total loans and advances to customers	-	**27,695,917**	**27,695,917**
Investment securities	-	**1,833,348**	**1,833,348**
Albanian Government Treasury Bills	-	1,833,348	1,833,348
Total Financial Assets	-	**40,657,316**	**40,657,316**

As at 31 December 2021	FVOCI	AC	Total
Cash and current accounts with banks	-	5,016,078	5,016,078
Loans and advances to banks	-	3,347,754	3,347,754
Other financial assets	-	210,251	210,251
Loans to Business	-	**25,184,414**	**25,184,414**
Loans to customers	-	18,671,131	18,671,131
Overdrafts	-	6,513,283	6,513,283
Loans to Private	-	**2,035,527**	**2,035,527**
Loans to customers	-	2,006,804	2,006,804
Overdrafts	-	26,743	26,743
Credit Cards	-	1,980	1,980
Total loans and advances to customers	-	**27,219,941**	**27,219,941**
Investment securities	-	**1,700,596**	**1,700,596**
Albanian Government Treasury Bills	-	1,700,596	1,700,596
Total Financial Assets	-	**37,494,620**	**37,494,620**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

9. Net interest income

	2022	2021
Interest income from		
Loans and advances to customers	1,217,042	1,100,342
Investment securities measured at AC	29,215	33,470
Loans and advances to financial institutions	15,398	4,440
Other interest income	11,557	7,595
Total interest income	**1,273,212**	**1,145,847**
Interest expense on		
Liabilities to customers	138,027	157,332
Interest expenses on subordinated debts	40,944	37,719
Interest expenses on financial institutions	71,228	79,815
Other	48,413	30,737
Total interest expense	**298,612**	**305,602**
Net interest income	**974,600**	**840,244**

Interest income and expenses are recognised in Statement of profit or loss on an accrual basis. Net interest Income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in the net interest income, but rather under ''Loss allowance''.

10. Loss allowance

	2022	2021
Change in loss allowances	(74,363)	123,160
Recovery of written-off loans	113,887	57,847
Total	**39,524**	**181,007**

11. Net fee and commission income

Fees and commissions income were comprised as follows:

Fee and commission income from:	**2022**	**2021**
Payment services	95,101	88,614
Debit/credit cards	35,721	27,788
Account maintenance	136,458	136,421
Letters of credit and guarantees	17,330	17,898
Others	624	642
Total	**285,234**	**271,363**
Fee and commission expenses on:		
Payment services	51,655	41,536
Debit/credit cards	67,424	60,433
Account maintenance	10,309	5,664
Letters of credit and guarantees	16,934	28,468
Others	356	725
Total	**146,678**	**136,826**
Net fee and commission income	**138,556**	**134,537**

Fee and commission income and expenses are recognised on the basis of the agreed amount payable. Income and expenses are generally recognised at a point in time.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

12. Net other operating result

Other operating income from:	2022	2021
Reversal of provision	6,001	5,508
Reimbursement of expenses	746	700
Sale of repossessed properties	54,102	63,179
Sale of property, plant and equipment	29,267	11,063
Rental of investment properties	66	1,679
Others	25,486	45,437
Total	**115,668**	**127,567**
Other operating expenses for:		
Deposit insurance	47,123	48,626
Disposal of property, plant and equipment	3,207	6,686
Impairment of repossessed properties	1,916	120,332
Impairment on claims to customers	9,120	19,314
Others	40,209	29,164
Total	**101,575**	**224,122**
Net other operating result	**14,093**	**(96,555)**

13. Administrative Expenses

	2022	2021
IT, Maintenance and repairs	296,705	353,726
Consultancy, legal fees and other services	106,362	116,169
Depreciation of property, plant and equipment	72,119	73,570
Security services	71,074	65,855
Marketing, advertising and representation	57,573	19,689
Telephone and electricity	47,320	39,693
Training	27,604	27,452
Transport	17,246	12,157
Lease expenses	10,471	19,513
Insurance	8,864	9,499
Office supplies	5,005	7,389
Amortization of intangible assets	2,541	3,617
Other expenses	120,038	19,572
Total	**842,922**	**767,901**

Other expenses are comprised mainly from reverse charge expenses LEK 102,308, municipal tax expenses Lek 5,705 (2021:Lek 6,560), withholding tax expenses Lek 4,249 (2021: Lek 4,781) and membership fee expenses Lek 1,483 (2021: Lek 1,445).

14. Personnel expenses

Personnel expenses were comprised as follows:

	2022	2021
Salary expenses	275,148	283,886
Social insurance	24,648	21,427
Public defined contribution plan	10,564	9,183
Other	131	19
Total	**310,491**	**314,515**

At 31 December 2022 the Bank had 149 employees (31 December 2021: 124 employees).

For the year ended 31 December 2022 (All amounts expressed in lek‘000, unless otherwise stated)

15. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2022 and 2021 is presented as it follows:

	2022	2021
Current tax	31,114	1,574
Deferred tax (benefit)/expenses	-	-
Income tax expense	**31,114**	**1,574**

Current income tax is calculated based on the income tax regulations applicable in Albania, using tax rates enacted at the reporting date. The tax rate on corporate income is 15% (2021: 15%).

(b) Reconciliation of the effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	2022	2021
Profit / (Loss) before tax	137,327	76,451
Theoretical charge /(credit) tax calculated at 15% (2021:15%)	20,599	11,468
Non-deductible expenses	10,515	31,223
Derecognition of deferred tax assets	-	-
Unrecognised tax loss carry forwards	-	-
Utilisation of previously unrecognised tax loss carry forwards	-	(41,117)
Income tax expense	**31,114**	**1,574**

	2022	2021
Total amount of tax loss carry forwards at the beginning of the period	-	274,114
Tax loss (utilised)/ realized during the year	-	(274,114)
Tax loss carry	-	-
Total amount of tax loss carry forward at the end of the year	**-**	**-**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

16. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2022	2021
Cash on hand	1,634,852	1,517,893
Current account with Central Bank of Albania	3,267,541	1,132,535
	4,902,393	2,650,428
Compulsory reserve with Central Bank of Albania	2,624,361	2,370,685
Allowance for impairment losses	(5,599)	(5,035)
Total	**7,521,155**	**5,016,078**

Compulsory reserves with Central Bank represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 7.5% of balances of deposits in ALL up to one-year maturity and 5% of balances of deposits in Lek that do not exceed two-year maturity. Whereas, the mandatory reserve for deposits in foreign currencies (mainly USD and EUR) is calculated as 12.5% of balances of deposits up to two-year maturity in case the share of foreign deposits over total deposits does not exceed 50%. In case its share is above 50% then the mandatory reserves is calculated as 20% of balances of deposits that exceed the predefined limit.

Cash and cash equivalents at 31 December 2022 and 2021 are presented below:

	2022	2021
Cash and balances with Central bank	4,902,393	2,650,428
Loans and advances to financial institutions with maturities of three months or less	3,345,103	3,347,754
Monetary values in transit	802	2,462
Total	**8,248,297**	**6,000,644**

Cash and balances with central banks

The credit quality of cash and balances with central banks is provided below. Central Bank of Albania is not rated. However, the Albanian Government is rated as B+ by S&P and by Moody's B1, with stable outlook.

31 December 2022	Rating	Cash balances with central banks, Total including mandatory reserves	Albanian Government securities with maturities less than 3 months	
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		3,267,541	-	3,267,541
- Compulsory reserve		2,624,361	-	2,624,361
- Government securities			1,348,321	1,348,321
Total cash and balances with central banks		**5,891,902**	**1,348,321**	**7,240,223**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

16. Cash and balances with Central Bank (continued)

31 December 2021	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		1,132,535	-	1,132,535
- Compulsory reserve		2,370,685	-	2,370,685
- Government securities		-	1,347,367	1,347,367
Total cash and balances with central banks		**3,503,220**	**1,347,367**	**4,850,587**

17. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2022	2021
Deposits with resident banks with original maturities of three months or less	110,012	-
Deposits with non-resident banks with original maturities of three months or less	3,235,091	3,347,754
Total	**3,345,103**	**3,347,754**

Interbank exposures are closely monitored on a daily basis by Risk Management Department and Treasury Unit. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Management Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's.

A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

18. Loans and advances to customers

Loans and advances consisted of the following:

Loans and advances consisted of the following:

	2022	2021
Loans to customers	21,674,691	21,671,477
Overdrafts	7,014,711	6,623,787
Credit Cards	3,218	2,108
Accrued interest	99,526	112,206
	28,792,146	**28,409,578**
Credit loss allowance	(1,096,229)	(1,189,637)
	27,695,917	**27,219,941**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

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

	2022	2021
At 1 January	1,189,637	1,407,389
Credit loss allowance for the year	112,151	(89,070)
Loans written off	(148,702)	(115,465)
Translation impact	(56,857)	(13,216)
Total	**1,096,229**	**1,189,637**

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

	2022	2021
Loans in Lek	2.50% to 10.00%	1.10% to 11.14%
Loans in Euro	1.00% to 10.00%	1.00% to 8.00%
Loans in USD	4.50% to 6.16%	3.70% to 3.70%

Loans and advances to customers and related impairment allowance for each of the Bank's internal days past due categories is presented as follows:

	31 December 2022 Loans and advances	ECL	31 December 2021 Loans and advances	ECL
Stage 1 and 2				
Arrears 0-7 days	27,725,730	(433,126)	26,976,920	(563,378)
Arrears 8-30 days	246,455	(23,294)	305,381	(8,102)
Arrears 31-90 days	1,641	(237)	86,362	(4,646)
Stage 3	818,320	(639,572)	1,040,916	(613,510)
	28,792,146	**(1,096,229)**	**28,409,578**	**(1,189,637)**

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

31 December 2022	Business	Private	Total
Total gross amount	25,922,838	2,869,308	28,792,146
Credit loss allowance (individual and collective)	(943,036)	(153,193)	(1,096,229)
Net carrying amount	**24,979,802**	**2,716,115**	**27,695,917**

31 December 2021	Business	Private	Total
Total gross amount	26,232,080	2,177,498	28,409,578
Credit loss allowance (individual and collective)	(1,047,666)	(141,971)	(1,189,637)
Net carrying amount	**25,184,414**	**2,035,527**	**27,219,941**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Loans to customers by credit risk stages are presented below:

31 December 2022	Business	Private
Stage 1	24,757,113	2,758,848
Stage 2 (SICR)	398,622	59,244
Stage 3 (Default)	767,103	51,216
Gross	**25,922,838**	**2,869,308**
Less: credit loss allowance	(943,036)	(153,193)
Net carrying amount	**24,979,802**	**2,716,115**

31 December 2021	Business	Private
Stage 1	23,943,961	1,937,800
Stage 2 (SICR)	1,334,408	152,494
Stage 3 (Default)	953,711	87,204
Gross	**26,232,080**	**2,177,498**
Less: credit loss allowance	(1,047,666)	(141,971)
Net carrying amount	**25,184,414**	**2,035,527**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2022 and 31 December 2021 are disclosed in the table below:

	31 December 2022			31 December 2021		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Business						
Loans	18,917,772	(804,955)	18,112,817	19,620,333	(949,202)	18,671,131
Overdrafts	7,005,066	(138,081)	6,866,985	6,611,747	(98,464)	6,513,283
Private						
Loans	2,829,598	(150,376)	2,679,222	2,147,583	(140,779)	2,006,805
Overdrafts	36,489	(2,602)	33,887	27,807	(1,064)	26,743
Credit Cards	3,221	(215)	3,006	2,108	(128)	1,980
Total loans and advances to customers at AC	**28,792,146**	**(1,096,229)**	**27,695,917**	**28,409,578**	**(1,189,637)**	**27,219,941**

For the year ended 31 December 2022 (All amounts expressed in lek‘000, unless otherwise stated)

18. Loans and advances to customers (continued)

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

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	**25,881,761**	**1,486,901**	**1,039,616**	**1,300**	**28,409,578**
New financial assets originated	15,721,217	-	-	-	15,721,217
Modification of contractual cash flows of financial assets	271	-	(44)	-	228
Derecognitions	(7,830,842)	(170,431)	(182,163)	-	(8,183,435)
Write-offs	-	-	(148,702)	-	(148,702)
Changes in interest accrual	9,328	1,199	27,505	5	38,037
Changes in the principal and disbursement fee amount	(5,555,268)	(358,308)	(238,952)	(289)	(6,152,817)
Transfers to Stage 1	(566,511)	554,150	12,361	-	-
Transfers to Stage 2	648,321	(1,074,570)	426,249	-	-
Transfers to Stage 3	26,869	39,154	(66,023)	-	-
Foreign exchange and other movements	(819,188)	(20,230)	(52,622)	78	(891,961)
Gross outstanding amount as of 31 December 2022	**27,515,960**	**457,867**	**817,226**	**1,094**	**28,792,146**

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	**(301,677)**	**(274,449)**	**(612,818)**	**(693)**	**(1,189,637)**
New financial assets originated	(183,633)	-	-	-	(183,633)
Release due to derecognition	27,353	3,255	102,746	-	133,355
Transfers to Stage 1	12,532	(12,462)	(70)	-	-
Transfers to Stage 2	(22,467)	99,404	(76,937)	-	-
Transfers to Stage 3	(564)	(9,832)	10,396	-	-
Increase in PD/LGD/EaD	(118,325)	(67,603)	395,411	(122)	(581,460)
Decrease in PD/LGD/EaD	222,024	156,935	140,595	33	519,587
Usage of allowance	-	-	148,702	-	148,702
Foreign exchange and other movements	10,115	2,738	44,004	-	56,858
Loss allowances as of 31 December 2022	**(354,641)**	**(102,015)**	**(638,791)**	**(783)**	**(1,096,229)**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as of 1 January	**23,539,094**	**1,637,606**	**1,494,165**	**34,726**	**26,705,590**
New financial assets originated	16,490,977	429,286	62,775	-	16,983,038
Modification of contractual cash flows of financial assets	(539)	106	(288)	-	(722)
Derecognitions	(8,051,908)	(619,893)	(318,879)	(21,949)	(9,012,629)
Write-offs	-	-	(103,549)	(11,916)	(115,465)
Changes in interest accrual	7,519	(5,957)	31,816	1,369	34,747
Changes in the principal and disbursement fee amount	(5,094,920)	(523,980)	(277,055)	(255)	(5,896,211)
Transfers to Stage 1	(1,130,523)	1,126,527	3,996	-	-
Transfers to Stage 2	411,747	(624,317)	212,570	-	-
Transfers to Stage 3	6,083	45,101	(51,184)	-	-
Foreign exchange and other movements	(295,769)	22,423	(14,750)	(675)	(288,771)
Gross outstanding amount as of 31 December 2021	**25,881,761**	**1,486,901**	**1,039,616**	**1,300**	**28,409,578**

Loss allowance loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January	**(420,824)**	**(229,624)**	**(752,517)**	**(4,423)**	**(1,407,389)**
New financial assets originated	(279,421)	(93,949)	(25,592)	-	(398,962)
Release due to derecognition	51,353	53,047	150,516	-	254,916
Transfers to Stage 1	40,510	(40,202)	(308)	-	-
Transfers to Stage 2	(14,386)	39,435	(25,049)	-	-
Transfers to Stage 3	(475)	(6,904)	7,379	-	-
Increase in PD/LGD/EaD	(103,740)	(103,615)	(263,186)	(8,397)	(478,939)
Decrease in PD/LGD/EaD	421,834	104,356	185,801	65	712,056
Usage of allowance	-	-	103,549	11,916	115,465
Foreign exchange and other movements	3,474	3,006	6,589	146	13,216
Loss allowances as of 31 December 2021	**(301,677)**	**(274,449)**	**(612,818)**	**(693)**	**(1,189,637)**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans. The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2022:

31 December 2022	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business					
Performing	15,116,114	17,623	-	-	15,133,737
Performing Loan Portfolio (LP) with Early Warnings Indicators (EWI)	9,423,004	27,236	-	-	9,450,240
Underperforming	217,995	353,763	-	-	571,758
Default	-	-	766,009	1,094	767,103
Gross carrying amount	**24,757,113**	**398,622**	**766,009**	**1,094**	**25,922,838**
Expected Credit Loss	(254,940)	(90,150)	(597,163)	(783)	(943,036)
Carrying amount	**24,502,173**	**308,472**	**168,846**	**311**	**24,979,802**
Private					
Performing	2,124,250	15,780	-	-	2,140,030
Performing LP with EWI	625,242	4,694	-	-	629,936
Underperforming	9,356	38,770	-	-	48,126
Default	-	-	51,216	-	51,216
Gross carrying amount	**2,758,848**	**59,244**	**51,216**	**-**	**2,869,308**
Expected Credit Loss	(99,701)	(11,865)	(41,627)	-	(153,193)
Carrying amount	**2,659,147**	**47,379**	**9,589**	**-**	**2,716,115**

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2021:

31 December 2021	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business					
Performing	16,971,776	46,441	-	-	17,018,217
Performing Loan Portfolio (LP) with Early Warnings Indicators (EWI)	6,827,437	15,492	-	-	6,842,929
Underperforming	144,747	1,272,475	-	-	1,417,223
Default	-	-	952,412	1,300	953,712
Gross carrying amount	**23,943,961**	**1,334,408**	**952,412**	**1,300**	**26,232,080**
Expected Credit Loss	(240,555)	(253,300)	(553,117)	(693)	(1,047,666)
Carrying amount	**23,703,405**	**1,081,108**	**399,294**	**607**	**25,184,414**
Private					
Performing	1,675,276	77,784	-	-	1,753,060
Performing LP with EWI	244,449	26,424	-	-	270,873
Underperforming	18,076	48,286	-	-	66,362
Default	-	-	87,204	-	87,204
Gross carrying amount	**1,937,800**	**152,494**	**87,204**	**-**	**2,177,498**
Expected Credit Loss	(61,122)	(21,149)	(59,700)	-	(141,971)
Carrying amount	**1,876,679**	**131,344**	**27,504**	**-**	**2,035,527**

18. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2022 is as follows:

		2022	
	Private	**Business**	**Total**
Stage 1 and Stage 2			
0 days past due	2,774,089	24,754,175	**27,528,264**
1 to 30 days past due	43,213	400,256	**443,469**
31 to 90 days past due	790	1,304	**2,094**
Total Stage 1 and Stage 2 impaired loans	**2,818,092**	**25,155,735**	**27,973,827**
Stage 3 collectively impaired loans			
0 days past due	23,080	65,117	**88,197**
1 to 30 days past due	9,555	16,918	**26,473**
31 to 90 days past due	4,281	29,448	**33,729**
over 90 days past due	13,118	38,965	**52,083**
Total Stage 3 Collectively impaired loans	**50,034**	**150,448**	**200,482**
Stage 3 Individually impaired loans			
0 days past due	-	20,570	**20,570**
1 to 30 days past due	-	18,513	**18,513**
31 to 90 days past due	-	26,009	**26,009**
over 90 days past	1,182	551,563	**552,745**
Total Stage 3 Individually impaired loans	**1,182**	**616,655**	**617,837**
Total loans	**2,869,308**	**25,922,838**	**28,792,146**
Expected credit losses	(153,193)	(943,036)	**(1,096,229)**
Net loans	**2,716,115**	**24,979,802**	**27,695,917**

		2021	
	Private	**Business**	**Total**
Stage 1 and Stage 2			
0 days past due	2,055,676	24,315,066	**26,370,742**
1 to 30 days past due	33,592	935,853	**969,445**
31 to 90 days past due	1,026	27,450	**28,476**
Total Stage 1 and Stage 2 impaired loans	**2,090,294**	**25,278,369**	**27,368,662**
Stage 3 collectively impaired loans			
0 days past due	31,951	79,363	**111,314**
1 to 30 days past due	31,138	70,884	**102,022**
31 to 90 days past due	3,574	28,170	**31,744**
over 90 days past due	20,540	23,020	**43,560**
Total Stage 3 Collectively impaired loans	**87,204**	**201,436**	**288,640**
Stage 3 Individually impaired loans			
0 days past due	-	136,504	**136,504**
1 to 30 days past due	-	22,360	**22,360**
31 to 90 days past due	-	-	**-**
over 90 days past	-	593,411	**593,411**
Total Stage 3 Individually impaired loans	**-**	**752,275**	**752,275**
Total loans	**2,177,498**	**26,232,080**	**28,409,578**
Expected credit losses	(141,971)	(1,047,666)	**(1,189,637)**
Net loans	**2,035,527**	**25,184,414**	**27,219,941**

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18. Loans and advances to customers (continued)

The following table shows the share of our customer loan portfolio which is subject to moratoriums due to COVID-19 or which has been restructured due to COVID-19:

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as of 31 December 2022	27,515,960	457,867	817,225	1,094	**28,792,146**
out of which gross carrying amount of loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
out of which gross carrying amount of loans with expired moratorium due to COVID-19:					
moratorium only	2,472,605	28,573	31,055	-	**2,532,233**
moratorium and restructuring	-	9,033	51,047	-	**60,080**

Loss allowance for loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
As of 31 December 2022	(354,641)	(102,015)	(638,791)	(782)	**(1,096,229)**
out of which loss allowances for loans currently under moratorium due to COVID-19:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
out of which loss allowances for loans with expired moratorium due to COVID-19:					
moratorium only	(49,419)	(2,570)	(22,582)	-	**(74,571)**
moratorium and restructuring	-	(2,617)	(40,467)	-	**(43,084)**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

According to the Bank's policy, only short-term credit exposures may be issued uncollateralized up to a certain amount. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. For an insignificant number of financial assets, the Bank holds cash collateral.
Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.
Depending on the type of restructuring (standard, watch or impaired), the credit exposure may be categorized or not in a better category (risk classification) based on the performance of the exposure. The healing period for standard and watch restructured exposures is defined as 24 months and during this period, the exposure should not show additional SICR. If SICR is noted (at least 30 days in arrears) the healing period starts recounting. For impaired restructured loans the reclassification is done in two steps, first 12 months of probation period with no SICR indicators in order to classify it to Watch Restructured exposure and then 24 months of healing period to reclassify it as standard exposure. For any reclassification after the healing period is fulfilled, the bank performs full financial monitoring of the exposure in order to make sure that no signs of further deterioration is expected.

	2022 Outstanding balance	Allowance for impairment	2021 Outstanding balance	Allowance for impairment
Business Trade	75,013	(24,653)	9,716	(4,106)
Business Agriculture	4,323	(3,128)	4,596	(2,464)
Business Production	-	-	288,273	(75,296)
Business Other	2,407	(1,727)	42,715	(11,781)
Private Housing	-	-	36,077	(10,389)
Private Investment	1,416	(1,016)	141	(76)
Total	**83,159**	**(30,524)**	**381,518**	**(104,112)**

31 December 2022	***Business***	***Private***	**Total**
Loans with renegotiated terms			
Carrying amount	81,743	1,416	83,159
Credit loss allowance	(29,508)	(1,016)	(30,524)
Net carrying amount	**52,235**	**400**	**52,635**

Loans with renegotiated terms	**2022**
Stage 1	-
Stage 2	66,944
Stage 3	16,215
Total gross amount	**83,159**
Individual impairment	-
Collective impairment	83,159
Total gross amount	**83,159**

31 December 2021	***Business***	***Private***	**Total**
Loans with renegotiated terms			
Carrying amount	345,300	36,218	381,518
Credit loss allowance	(93,647)	(10,465)	(104,112)
Net carrying amount	**251,653**	**25,753**	**277,406**

Loans with renegotiated terms	**2021**
Stage 1	-
Stage 2	322,560
Stage 3	58,957
Total gross amount	**381,518**
Individual impairment	24,862
Collective impairment	356,656
Total gross amount	**381,518**

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18. Loans and advances to customers (continued)

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

Credit portfolio risk from customer lending

The granularity of the loan portfolios is a highly effective credit risk mitigating factor. The core business of the banks, lending to small and medium enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to larger credit exposures constitutes a supplementary area of the Bank's business in terms of its overall strategic focus. Most of these clients are enterprises that have been working with the Bank for a number of years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of both the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.
An analysis of loans and advances to customers by industry amount of security is provided below:

	2022	%	2021	%
Business Trade	10,740,338	37%	10,535,549	37%
Business Production	7,472,680	26%	8,142,776	29%
Business Other	6,203,180	22%	5,886,424	21%
Business Agriculture	885,032	3%	1,025,484	4%
Business Transport	621,608	2%	641,847	2%
Private Housing	2,545,034	9%	1,987,220	7%
Private Investment	144,295	0%	116,469	0%
Private Other	179,979	1%	73,809	0%
Total	**28,792,146**	**100%**	**28,409,578**	**100%**

18. Loans and advances to customers (continued)

Credit portfolio risk from customer lending (continued)

		2022	
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	10,393,553	115,877	230,907
Business Agriculture	840,069	6,865	38,098
Business Production	7,054,274	130,395	288,011
Business Transport	365,430	98,288	157,891
Business Other	6,103,787	47,197	52,196
Private Housing	2,456,171	52,339	36,525
Private Investment	127,259	6,739	10,296
Private Other	175,418	166	4,395
Total	**27,515,961**	**457,866**	**818,319**

		2021	
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	9,918,164	352,202	265,183
Business Agriculture	975,368	32,582	17,534
Business Production	7,038,125	758,620	346,032
Business Transport	335,048	92,842	213,957
Business Other	5,677,255	98,162	111,006
Private Housing	1,761,101	142,262	83,859
Private Investment	111,495	3,376	1,597
Private Other	65,204	6,856	1,748
Total	**25,881,760**	**1,486,902**	**1,040,916**

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2022 along with the fair value of related collateral held by the Bank as security is presented as it follows.

		2022	2021	
	Gross outstanding amount	**Fair value of collateral**	**Gross outstanding amount**	**Fair value of collateral**
Business Trade	230,908	211,625	265,182	204,371
Business Agriculture	38,098	35,603	17,534	15,701
Business Production	288,011	122,983	346,032	266,071
Business Transport	157,891	131,046	213,957	167,889
Business Other	52,195	48,146	111,006	102,789
Private Housing	36,525	24,617	83,859	46,683
Private Other	14,691	654	3,346	-
Total	**818,319**	**574,674**	**1,040,916**	**803,504**

The fair value of collaterals disclosed above are based on the determination by local certified evaluators and represents market value realisable by the legal owners of the assets, deducted with the haircuts applied from the internal evaluators based on the bank's internal policies.

The structure of the loan portfolio is regularly reviewed in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas.

The Bank follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the PCH Group Risk Management Committee.

No single large credit exposure may exceed 25% of regulatory capital.

18. Loans and advances to customers (continued)

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.
At 31 December 2022, the ten largest borrowers represent 10.75% (2021: 11.93%) of the total loans.
Individually significant credit exposures are closely monitored by the Credit Risk Committee of the Bank. For such credit exposures, the Bank performs an impairment test if the following default events are identified, i.e:

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

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

For individually significant credit exposures for which the individual impairment calculation showed that present value of expected future cash flows is higher than book, the provisioning for these exposures is defined as an absolute amount of the calculated impairment loss, applying the minimum LLP rate for Stage 1 of the respective exposure class.

While calculating PDs the portfolio is segmented in different buckets as Very Small Exposures (<EUR 50K), SME Exposures (>EUR 50K). The same distribution of exposure size is done for business portfolio and private clients portfolio. For SME Exposures the loss parameters are based on the internal risk classification system for the rated exposures. For Stage 2, the type of restructuring is measured in addition for Private Clients and Very Small Exposures of the exposure.

If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity. The significant increase in credit risk is established based on both quantitative and qualitative information: based on the comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A significant increase in credit risk occurs if the difference in PDs exceeds a pre-defined threshold and the respective asset will be transferred from Stage 1 to Stage 2.

Stage 3 includes a defaulted financial assets and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity.

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

As stated in the IFRS 9 framework, the necessity to estimate lifetime expected losses arises in IFRS 9 Stages II and III; in Stage I, one-year expected losses are used. Details of the different approaches are given below. 12-month expected credit losses are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

18. Loans and advances to customers (continued)

Lifetime expected credit losses are the present value of losses that arise if a borrower defaults on his obligation throughout the life of the financial instrument. Because expected credit losses consider the amount as well as the timing of payments, a credit loss (i.e., a cash shortfall) arises even if the entity expects to be paid in full but later than when contractually due.
12-month expected credit losses can be viewed as a part of the lifetime expected credit losses that are associated with a potential default during the next twelve months. However, in contrast to lifetime expected credit losses, they do not correspond to expected cash shortfalls over the next twelve months. In particular, no timing information is taken into account.

Impairment and provisioning
The Bank reviews its loan portfolios to assess staging at least on a quarterly basis. The Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.
Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off policy
The Bank writes off a loan (and any related allowances for impairment losses) when it is determined that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Repayments of loans previously written off amounted to ALL 113.888 thousand in 2022 (2021: ALL 57,847 thousand).

Lending commitments and financial guarantees
The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment (see Note 30).

Risk limit control and mitigation policies
The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups and to affiliates.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.
Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements and their financial effect
The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over cash and bank guarantees (cash collateral);
- Mortgages over residential properties; and
- Charges over business assets such as premises, inventory and accounts receivable.

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are secured by cash collateral or other types of collateral determined with a decision of credit committees.
In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2022.

31 December 2022	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	9,824,777	10,139,227	15,155,025	10,343,316
Private	1,129,302	1,180,382	1,586,813	926,810
	10,954,079	**11,319,609**	**16,741,838**	**11,270,126**

31 December 2021	Over-collateralised assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	6,879,573	8,224,759	18,304,841	13,650,287
Private	675,833	716,521	1,359,694	994,501
	7,555,406	**8,941,280**	**19,664,535**	**14,644,788**

The fair value of the collateral is evaluated by the Bank on individual basis. The assessed value represents expected market value. Expected income from collateral liquidation is also taken into account in calculation of individual impairment provisioning.

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as of 31 December 2022 and 2021. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2022			2021		
	OECD countries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks		5,886,303	5,886,303	-	5,016,078	5,016,078
Loans and advances to banks	3,235,092	110,012	3,345,103	3,347,754	-	3,347,754
Loans and advances to customers		27,695,917	27,695,917	-	27,219,941	27,219,941
Debt securities held at Amortized Cost (AC)		1,833,348	1,833,348	-	1,700,596	1,700,596
Other financial assets		261,793	261,793	-	210,251	210,251
Total	**3,235,092**	**35,787,373**	**39,022,465**	**3,347,754**	**34,146,866**	**37,494,620**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Loans and advances to customers based on specific industry sectors at 31 December 2022 and 2021 are presented below:

	31 December			
Industry sector	**2022**	**%**	**2021**	**%**
Trade	11,678,320	42	11,667,392	43
Industry and other production	7,978,964	29	8,683,484	32
Construction	2,399,424	9	1,980,042	7
Transport	492,717	2	498,089	2
Services	1,277,771	5	1,797,827	7
Other	3,868,721	13	2,593,107	9
Total	**27,695,917**	**100**	**27,219,941**	**100**

19. Investment securities measured at amortised cost

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

	2022 Amortised Cost	**2021 Amortised Cost**
Treasury bills at AC	1,834,287	1,701,230
Loss allowance for Investment Securities AC	(940)	(634)
Total	**1,833,348**	**1,700,596**

The movement in investments securities is summarised as follows:

	2022	**2021**
At 1 January	1,700,596	1,293,444
Additions	1,834,287	1,906,450
Loss allowance for Investment Securities AC	(306)	(100)
Matured	(1,701,230)	(1,499,198)
Total	**1,833,348**	**1,700,596**

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

Issuer	*Maturity*	*2022 Yield*	*Carrying value*	*Maturity*	*2021 Yield*	*Carrying value*
Albanian government	12 months	1.53%-5.80%	1,834,287	12 months	1.40%-2.20%	1,701,230
			1,834,287			**1,701,230**

The table below contains an analysis of the credit risk exposure of debt securities measured at AC at 31 December 2022.
Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.71% and LGD of 30%.

Movement in impairment for the years ended December 31, 2022 and 2021, charged to profit and loss is as following:

	31-Dec-22	**31-Dec-21**
Opening balances	634	534
New financial assets originated	940	2,875
Release due to derecognition	(634)	(87)
Increase/Decrease in PD/LGD/EaD	-	(2,688)
Closing balance	**940**	**634**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

19. Investment securities measured at amortised cost (continued)

Exposure to debt securities is regulated by Treasury Policy and Procedures. Investments are allowed only in liquid securities that have minimum credit ratings of (AA-) or in Albanian Government papers, subject to approval from the Group ALCO. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Investments in debt securities are with central banks, or other financial institutions rated as detailed below:

Ratings at 31 December	31- Dec-22	31- Dec-21
Securities at Amortised Cost		
B+	1,834,287	1,701,230
Total	**1,834,287**	**1,701,230**

20. Other assets

	31- Dec-22	31- Dec-21
Current assets		
Other debtors	261,793	210,251
Other financial assets	**261,793**	**210,251**
Prepaid expenses	27,037	25,190
Inventory	1,365	3,404
Shares	181	192
Non current assets		
Repossessed properties	17,120	48,004
Loss allowance	(14,383)	(21,309)
Total	**293,113**	**265,731**

Movement in loss allowance for the years ended December 31, 2022 and 2021, charged to profit and loss is as following:

	31- Dec-22	31- Dec-21
Opening balances	21,309	**7,535**
Increase/Decrease in PD/LGD/EaD	(6,926)	13,774
Closing balance	**14,383**	**21,309**

Other debtors mainly relate to prepayments made to Bailiff Offices that collect funds from loan customers, either for repossession processes which have not yet been concluded, or for processes which have been finalised but the amount is expected to be collected from the debtors and also included sales of properties on condition.
The repossessed properties are collaterals obtained through legal processes and include land, buildings and business premises, which are not used by the Bank for its core operations. A repossessed property is accounted for under IFRS 5 – Held for sale assets, and expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the bank's controls and there is sufficient evidence that the bank remains committed to its plan to sell the asset. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

The movement of repossessed assets item during the reporting period is presented as follows:

	31- Dec-22	31- Dec-21
Balance at the beginning of the period	48,004	175,862
Additions during period	93,608	-
Disposals during the period	(124,491)	(8,071)
Impairment allowance	-	(33,754)
Write downs	-	(86,033)
Balance at the end of the period	**17,120**	**48,004**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

21. Investment property

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

At 1 January 2022	**15,549**
Additions	-
Disposals	(15,549)
At 31 December 2022	-
Accumulated depreciation	(13,151)
Charge for the year	(97)
Accumulated depreciation at time of disposal	13,248
Impairment	-
At 31 December 2022	**-**

At 1 January 2021	**15,549**
Additions	-
Disposals	-
At 31 December 2021	**15,549**
Accumulated depreciation	(12,762)
Charge for the year	(389)
Accumulated depreciation at time of disposal	-
Reversal of Impairment	-
At 31 December 2021	**2,398**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

22. Property, plant and equipment

31-December-22	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition cost as of 1 January 2022	741,332	609,696	112,660	**1,463,689**
Additions	4,576	30,185	86,572	**121,332**
Disposals	(634,845)	(171,944)	-	**(806,789)**
Impairment	-	-	-	-
Total acquisition cost as of 31 December 2022	**111,063**	**467,937**	**199,232**	**778,232**
Accumulated depreciation as of 1 January 2022	255,334	491,802	59,886	**807,022**
Charge for the year	16,418	35,147	20,554	**72,119**
Disposals	(180,899)	(166,035)	-	**(346,934)**
Accumulated depreciation as of 31 December 2022	**90,854**	**360,913**	**80,440**	**532,207**
Net carrying amount	**20,209**	**107,023**	**118,792**	**246,025**

31-December-21	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition cost as of 1 January 2021	754,240	672,550	70,546	**1,497,336**
Additions	20,974	63,249	43,654	**127,877**
Disposals	(33,882)	(126,103)	(1,540)	**(161,525)**
Impairment	-	-	-	-
Total acquisition cost as of 31 December 2021	**741,332**	**609,696**	**112,660**	**1,463,688**
Accumulated depreciation as of 1 January 2021	242,428	574,158	39,761	**856,347**
Charge for the year	15,216	38,229	20,125	**73,570**
Disposals	(2,310)	(120,585)	-	(122,895)
Accumulated depreciation as of 31 December 2021	**255,334**	**491,802**	**59,886**	**807,022**
Net carrying amount	**485,998**	**117,894**	**52,774**	**656,666**

For the year ended 31 December 2022 (All amounts expressed in lek‘000, unless otherwise stated)

23. Intangible assets

At 1 January 2022	**160,432**
Additions	2,076
Disposals	(5,820)
Transfer	-
At 31 December 2022	**156,688**
Accumulated depreciation at 1 January 2022	(152,711)
Charge for the year	(2,541)
Accumulated depreciation at time of disposal	4,877
Accumulated depreciation at 31 December 2022	(150,375)
Net book value at 31 December 2022	**6,313**

At 1 January 2021	**160,098**
Additions	334
Disposals	-
Transfer	-
At 31 December 2021	**160,432**
Accumulated depreciation at 1 January 2021	(149,094)
Charge for the year	(3,617)
Accumulated depreciation at time of disposal	-
Accumulated depreciation at 31 December 2021	(152,711)
Net book value at 31 December 2021	**7,720**

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

24. Liabilities to banks

	2022	2021
Borrowings from resident banks	271,332	275,391
Borrowings from non-resident banks	4,086,324	3,029,846
Total	**4,357,656**	**3,305,236**

Borrowings from resident banks have maturities as at December, 2022 for maturities up to 90 days 3.4% and 3.5% for balances denominated in Lek.

Borrowings from non-resident banks have maturities as at December 31, 2022 up to 5 years (2022: up to 3 years) and interest rates of 1.152%, 1.334%, 2.361%, 2.563%, 1.222%, 1.92%, 1.686%, 1.13% and 1.16% for balances denominated in EUR (2021 0.6%, 0.649%, 0.67% 1.067%,1.222% and 1.92% p.a for EUR).

25. Liabilities to customers

	2022	2021
Current accounts		
Foreign currency	7,212,744	7,030,541
Local currency	4,131,123	4,546,305
Savings accounts		
Foreign currency	4,537,202	2,959,091
Local currency	1,743,727	2,013,527
Term deposits		
Foreign currency	3,776,743	3,749,976
Local currency	5,523,634	5,923,495
Other customer account		
Foreign currency	55,458	132,227
Local currency	41,484	73,092
Total	**27,022,115**	**26,428,254**

Savings accounts in Lek (FlexSave) bear interest at 0.8% p.a (2021: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2021: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2021: 0.5%).
Other customer accounts include accounts pledged by customers as cash collateral. They bear interest rates at the similar levels as the term deposits.
The interest rates applied for term deposits as of 31 December 2022 were as follows:

(in %)	12 months	24-36 months
Lek	1.00 - 1.50	1.60 - 2.30
EUR	0.30 - 0.70	0.40 - 0.70
USD	0.50 - 0.80	0.60 - 0.90

31 December 2021

(in %)	12 months	24-36 months
Lek	1.00 - 1.50	1.60 - 2.30
EUR	0.30 - 0.70	0.40 - 0.70
USD	0.50 - 0.80	0.60 - 0.90

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

26. Other borrowed funds

	2022	2021
ProCredit Holding Ag & Co.KGaA	3,328,761	1,883,463
Financial institutions	573,289	2,206,601
Total	**3,902,050**	**4,090,065**

27. Subordinated debt

	2022	2021
ProCredit Holding Ag & Co.KGaA	799,610	845,320
Accrued interest	16,065	12,578
Total	**815,675**	**857,898**

On August 30, 2019, ProCredit Bank SH.A received a subordinated debt from the shareholder ProCredit Holding AG & CO.KGaA. The main data of the subordinated debt are as follows:

- Its amount is 7 Million Euros (in the amount of 854,840,000 ALL converted with the exchange rate of the Bank of Albania 122.12 on August 30, 2019).
- The maturity period of the subordinated debt is 10 years.
- The annual interest rate is 6M Euribor+4.85%.

In the subordinated debt contract, it is stipulated that interest payments are made on a six-months basis and the principal is payable on the maturity date. Interest is calculated on an annual basis and the year is assumed to have 360 days. The parties have agreed that within the first 5 years from receiving the subordinated debt, no further payments will be made for the purpose of early repayment of the subordinated debt. This option is possible after the first 5 years have passed since receiving the subordinated debt.

The subordinated debt is in accordance with the Regulation of the Bank of Albania No. 69 dated 18.12.2014 “On the bank’s regulatory capital”. Based on articles 30 and 31 of this regulation, subordinated debt is classified as a tier two capital instrument. For the classification of subordinated debt as a tier two capital instrument, preliminary approval was given by the Bank of Albania at the time of its issuance, in 2019.

28. Other liabilities

	2022	2021
Payments in transit	463,499	40,930
Sundry creditors	55,814	67,983
Accrued expenses	25,167	21,710
Lease liabilities	116,192	52,367
Other financial liabilities	**660,672**	**182,990**
Tax and social charges	24,165	20,416
Other provisions	33,770	45,184
Deferred fee income	11,114	23,243
Total	**729,721**	**271,833**

Other provisions relates to provisions for impairment losses for off-balance sheet items and provisions established for legal cases. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The movement in other provisions for the years 2022 and 2021 is presented below:

Other liabilities (continued)

	Off-balance sheet items	Legal cases	Other	Total
Balance as at 1 January 2021	31,032	10,239	11,241	**52,512**
Provisions made during the year	13,174	7,317	1,547	**22,039**
Provisions reversed during the year	(23,858)	-	(5,508)	**(29,366)**
Balance as at 31 December 2021	**20,348**	**17,556**	**7,280**	**45,184**
Provisions made during the year	(4,709)	1,026	-	**(3,683)**
Prov. reversed during the year	(1,731)	-	(6,001)	**(7,731)**
Balance as at 31 December 2022	**13,909**	**18,582**	**1,280**	**33,770**

29. Share capital and legal reserves

At 31 December 2022, the authorised and issued share capital of the Bank was comprised of 604,851 (2021: 523,661) shares with a value of Lek 5,711,469 (2021 LEK 4,995,616). The Parent and sole shareholder of the Bank is ProCredit Holding AG& Co. KGaA (the 'Parent'), a holding company based in Frankfurt am Main, Germany.

	Number of shares	In Lek'000	%
ProCredit Holding	604,851	5,711,469	100
	604,851	**5,711,469**	**100**

Share Capital	At 1 January 2022	New shares issued	At 31 December 2022
Number of outstanding shares	523,661	81,190	604,851
Share capital in Lek	**4,995,616**	**715,853**	**5,711,469**

Legal reserves

Legal reserves were created based on the decision of the Supervisory Council of the Bank of Albania No. 69, dated 18 December 2014, which states that reserves are created by appropriating 20% of the Bank's net profit for the year, as reported for regulatory purposes. Additionally, a legal reserve created as 5% of the statutory profit is required by Law No. 9901, dated 14 April 2008, "On entrepreneurs and commercial companies".

For the year ended 31 December 2022 (All amounts expressed in lek'000, unless otherwise stated)

30. Commitments and contingencies

	2022	2021
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	2,172,203	2,527,860
International guarantees	1,356,364	517,392
Local guarantees	-	797,165
Letters of credit	-	-
Less: Provisions recognised as liabilities	(13,909)	(20,349)
Total	**3,514,658**	**3,822,069**
Credit commitments		
Unused credit card facilities	30,634	19,234
Unused overdraft limits	808,869	1,155,125
Non-disbursed loans tranches	-	2,900
Unused portion of credit lines	1,332,700	1,350,600
Total	**2,172,203**	**2,527,860**

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2022.

Legal proceedings

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2022 is remote, except the cases the provision was recorded as shown in note 28.

Commitments by credit quality based on credit risk grades at 31 December 2022 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	1,356,364	-	-	**1,356,364**
Letters of credit	-	-	-	**-**
Total Guarantees and Letter of Credits	**1,356,364**	**-**	**-**	**1,356,364**
Loans commitments not yet disbursed	2,171,379	824	-	**2,172,203**
Total credit related commitments	**3,527,743**	**824**	**-**	**3,528,567**
Provision for guarantees and Letter of Credits	(6,673)	-	-	**(6,673)**
Provision for loan commitments	(7,225)	(11)	-	**(7,236)**
Total commitments	**3,513,844**	**814**	**-**	**3,514,658**

Commitments by credit quality based on credit risk grades at 31 December 2021 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	1,314,018	540	-	**1,314,558**
Letters of credit	-	-	-	**-**
Total Guarantees and Letter of Credits	**1,314,018**	**540**	**-**	**1,314,558**
Loans commitments not yet disbursed	2,510,786	17,072	3	**2,527,860**
Total credit related commitments	**3,824,804**	**17,612**	**3**	**3,842,418**
Provision for guarantees and Letter of Credits	(7,406)	(30)	-	**(7,435)**
Provision for loan commitments	(12,608)	(304)	(1)	**(12,913)**
Total commitments	**3,804,790**	**17,278**	**2**	**3,822,069**

The Bank calculates expected credit loss (ECL) and lifetime expected credit loss (LECL) provision for guarantees and letter of credits by applying to underlying exposures based on the staging classification. In cases, when an individual assessment is applied, the specific provision forecast is considered for the final impairment. Refer to disclosure of impairment of loans and advances to customers for the provisioning rates.

31. Related party transactions

The Bank’s related parties include the parent company and ultimate controlling party ProCredit Holding AG & Co. KGaA AG, fellow subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

The Bank has a management services agreement with ProCredit Holding AG & Co. KGaA AG, for providing the Bank with personnel in the high level management of the Bank, including one Member of the Management Board. Management fees paid to ProCredit Holding AG & Co. KGaA AG in 2022, were Lek 48,474 thousand (2021: Lek 42,856 thousand).

Further, in the course of conducting its banking business, the Bank entered into business transactions with related parties and the balances and transactions with the ProCredit Holding AG & Co. KGaA AG, parent company and affiliated entities under common control at 31 December 2022 and 2021 are presented below:

	2022		2021	
	Parent Company	Entities under common control	Parent Company	Entities under common control
Statement of Financial Position				
Assets	**-2**	**,446,587**	**76**	**2,511,256**
Loans and advances to banks -		2,444,628	-	2,508,684
Other assets	-	1,9597	62	,572
Liabilities	**1,391,0774**	**,091,278**	**2,742,1963**	**,046,901**
Liabilities to banks -		4,086,324	-	3,029,846
Liabilities to customer	573,289	-	1,883,463	-
Other Liabilities	2,1134	,954	835	17,055
Subordinated debt	815,675	-	857,898	62 -
Statement of Profit or Loss and OCI				
Income	-	**12,993**	-	**29,606**
Interest income	-	5,781	-	145
Other operating income	-	7,212	-	29,461
Expenses	**113,2814**	**05,998**	**114,165**	**382,474**
Interest expenses	52,564	59,608	67,846	49,688
Fee and commission expenses	12,243	39,412	3,099	38,437
Administrative expenses	48,474	306,9784	3,2202	94,349

Key management remuneration:

	2022	2021
Salaries	453,806	266,463
Short-term pension contribution (mandatory scheme)	28,185	15,074
Total	**481,991**	**281,537**

32. Events after the reporting date

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

Contact Addresses

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Square 21 Agency, 24/7 Zone
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Shkodër Agency, 24/7 Zone
Lagja Qemal Stafa, Bulevardi
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Durrës Agency, 24/7 Zone
Lagjia Nr.4, Autostrada Egnatia,
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