ProCredit Bank

Albania

Annual Report 2017

Key Figures

	EUR '000		ALL '000	
	2017	2016	2017	2016
Balance Sheet Data				
Total Assets	256,968	245,756	34,163,812	33,233,585
Gross Loan Portfolio	181,535	158,157	24,135,031	21,387,633
Business Clients Loan Portfolio	164,352	130,555	21,850,542	17,654,956
Private Clients Loan Portfolio	17,183	27,602	2,284,489	3,732,677
Loan Loss Provision	(10,199)	(11,042)	(1,356,000)	(1,493,182)
Net Loan Portfolio	171,335	147,116	22,799,031	19,894,451
Customer Deposits	180,867	201,894	24,046,245	27,302,128
Liabilities to Banks and Financial Institutions (excluding PCH)	4,137	1,044	549,965	141,226
Total Equity	32,261	35,766	4,289,114	4,836,609
Income Statement				
Operating Income	6,578	11,967	882,356	1,643,939
Operating Expenses	9,901	11,753	1,327,960	1,614,485
Operating Profit Before Tax	(4,338)	214	(581,834)	29,454
Net Profit	(3,998)	64	(536,204)	8,756
Key Ratios				
Cost/Income Ratio	150.50%	94.73%		
Return on Equity (ROE)	(11.95%)	0.18%		
Capital Ratio	13.42%	16.19%		
Operational Statistics				
Number of Clients	41,441	70,576		
of which Business Clients	7,953	10,475		
Number of Loans Outstanding	6,181	9,617		
Number of Deposit Accounts	75,520	113,236		
Number of Staff	177	237		
Number of Branches and Outlets	7	18		

Exchange rate as of December 31:
2017: EUR 1 = ALL 132.95
2016: EUR 1 = ALL 135.23

Average exchange rate for the period:
2017: EUR 1 = ALL 134.13
2016: EUR 1 = ALL 137.37

Mission Statement

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who would like to save. 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.

In our operations with business clients, 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 other banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility.

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 (customer) service for our clients.

Management of ProCredit Bank Albania during 2017:

- *Adela Leka – Spokesperson of the Management Board*
- *Ardiola Hristiç – Member of the Management Board*

Board of Directors during 2017:

- *Borislav Kostadinov, Chairman*
- *Wolfgang Bertelsmeier*
- *Mimoza Godanci*
- *Jordan Damcevski*
- *Robert Scott Richards*

Comprehensive Statement

In the context of specifications and principles set forth in the Regulatory Framework of the Bank of Albania, “On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators”, ProCredit Bank sh.a. hereby declares:

1. Remuneration policy

In accordance with the ProCredit Bank remuneration policy in force since 15 July 2010, members of ProCredit Bank’s Board of Directors are not paid a salary, but receive a per diem allowance whose amount is set periodically by the Shareholders’ Assembly.

Both members of Management Board of ProCredit Bank, as the highest executive officers, in accordance with the risk profile of the Bank, are paid on a monthly basis for an aggregated yearly amount of ALL 17’640’000. The bank’s remuneration policy consists of monthly salaries which are set according to the job position, experience, responsibilities and tasks of each employee and does not provide for bonuses.

Other forms of compensation for employees include:

- Yearly private health insurance
- Compensation for child care (up to 12 months)
- Newborn child remuneration
- Travel and rental compensation
- Mobile telephone package

In order to ensure the legitimacy, safety and efficiency of its operations, ProCredit Bank sets and implements the following:

- Risk management policies and procedures
- Procedures establishing the criteria for appointing administrators and preparing the respective documentation for Bank of Albania approval
- Procedures for ensuring legal compliance with external regulatory frameworks

Our salary policy is in line with the salary policy of the ProCredit group, and defines the role of ProCredit Holding in relation to internal policy with regard to remuneration.

The purpose of this policy is to define the principles upon which the salary structure is based, but reference is also made to changes in positions, organisational structures and training needs for each salary group.

The group salary structure is a core component of the group’s HR policy. It aims at providing a simple and coherent framework of salary ranges for all key positions at ProCredit institutions and clear career development paths in one concise document. Each position at the Bank appears in the salary grid with a salary range consisting of a certain number of salary steps that can be used depending on the performance of each employee.

The principle of a fixed (non-variable) salary was strongly reaffirmed as a key element of the group salary policy. Not only have performance-based bonuses been abolished, but additional financial benefits, such as a 13th or 14th month of pay, allowances of any type, vouchers, holiday money, etc., are also not practised within the group beyond what is legally required. This is to ensure a stable form of remuneration for our employees over the long term, rather than a highly unpredictable package that can be modified (downward) during difficult times.

Each position is also situated relative to all the other positions, reflecting their different degrees of complexity and contribution to the Bank's development. The number of different positions in the salary grid is intentionally limited to reflect the relatively flat hierarchical organisation of the banks. The mere existence of this concise salary framework illustrates clearly the identity of ProCredit banks as coherent entities sharing a common vision embracing all their employees under the same shared "roof" of principles.

Salary reviews are conducted annually for all employees and, based on the assessment of each employee, the HR committee decides whether or not a salary increase should be offered.

The HR committee guides the development of human resources through discussion of and decision-making on strategic issues which are usually proposed by the Human Resources department, Executive Board members, and members of the committee, as well as proposals that may come from the managers of the business units or departments/units at Head Office. The Human Resources committee meets once per month.

Risk tolerance / appetite of ProCredit Bank Albania

ProCredit Bank Albania provides financial services to small and medium-sized businesses and private individuals, and thus contributes to the economic development of its clients. The business strategy of the bank is straightforward: the only services offered are those that are beneficial to small and medium-sized businesses, as well as simple savings products designed for both business and private clients.

The bank explicitly refrains from engaging in speculative lines of business. As a matter of principle, the bank does not engage in proprietary trading and does not enter into any speculative positions for the purpose of generating potential additional income. Therefore, it is strictly a non-trading book institution. The overall orientation is geared towards stability, particularly with regard to the earnings situation and the risk profile of the bank.

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

- Focus on core business: the provision of financial services to small and medium-sized businesses
- Provision of simple, transparent financial products for the target clientele
- Avoidance of financing consumer goods
- Avoidance of risk concentrations
- Careful selection of clients with the objective of long-term cooperation
- Structured, multi-phase selection process for all staff as well as careful training of staff, during which great importance is placed on ethical and social aspects
- A vibrant risk culture that underlines the responsibility of each and every employee in the context of taking risks and which emphasises open communication and flat hierarchies

An awareness of risk among all managers and employees, an inherently conservative approach to risk management and the consistent application of the principle of diversification are integral parts of the bank's business strategy.

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

The bank performs a risk inventory process on an annual basis. The risk inventory is the instrument we use to identify the material risks the bank is exposed to, and thus shows the overall risk profile. It forms the basis of the risk management system of ProCredit Bank. This inventory and the identified material risks are subject to review and approval from the bank's Risk Management Committee; they are also sent to the responsible structures at ProCredit Holding. All of the identified material risks are included in the bank's risk management framework and are also included in the Internal Capital Adequacy Assessment Process.

In line with the business and risk strategy, the bank assumes the following material risks and assigns these risks percentages of the resources available to cover risk (RAtCR). The risk-taking potential is not divided up according to mathematical formulae, but rather reflects our business model and is based on our understanding of the market's developments over the years.

Credit risk: As we are the “Hausbank” for small and medium-sized businesses and focus on the provision of financial services, credit risk represents the most significant risk category for the bank. Credit risk refers to the risk that the party to a transaction will fail to meet its contractual obligations in full or on time and therefore includes the categories of customer credit risk, counterparty and issuer risk, and country risk. Accordingly, this risk is assigned the highest share (38% = 33% for credit risk + 5% for counterparty risk) of the bank’s RAtCR.

Thanks to highly trained staff, as well as a strong internal control system and various instruments used specifically to manage **operational risk** (such as a risk event database), the bank has historically experienced a stable and low level of losses from operational risks (including fraud risks). This risk is therefore assigned a share of 10% of the RAtCR.

Since the deposits of our clients often have short maturities, and as the local financial market offers no mechanisms for hedging the **interest rate risk**, acceptance of interest rate risk by the bank is necessary for achieving the strategic objectives. This risk has thus been allocated a share of 10% of the RAtCR.

Although the bank pursues a conservative strategy with respect to **foreign currency risk**, and it is obliged to keep closed currency positions, it is impossible to avoid currency risks in specific circumstances. Therefore, this risk is assigned a share of 2% of the RAtCR.

Furthermore, a 40% buffer of the RAtCR is intended to cover other risks, such as funding, business and income risk.

Financial Statements

For the year ended 31 December 2017 .
Prepared in accordance with International Financial Reporting Standards.

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Independent Auditor's Report

To the Shareholder and Board of Directors of ProCredit Bank sh.a.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the ProCredit Bank Sh.a. (the "Bank") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditor's Report (continued)

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, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Audit sh. p. k.

PricewaterhouseCoopers Audit sh.p.k.
11 May 2018
Tirana, Albania

Statutory Auditor
Jonid Lamllari

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December

		In ALL '000		In EUR '000	
Assets	**Notes**	**2017**	**2016**	**2017**	**2016**
Cash and balances with Central Bank	14	6,710,872	5,839,408	50,477	43,181
Loans and advances to financial institutions	15	119,326	1,238,954	898	9,162
Loans and advances to customers	16	22,779,031	19,894,451	171,335	147,116
Financial assets available-for-sale	17	1,831,349	2,870,306	13,775	21,225
Deferred income tax assets	13	64,980	17,358	489	128
Corporate income tax receivable		55,154	42,561	415	315
Other assets	18	1,287,503	1,835,911	9,684	13,576
Investment property	19	92,057	100,979	692	747
Property and equipment	20	1,121,939	1,260,292	8,439	9,320
Intangible assets	21	101,601	133,365	764	986
Total assets		**34,163,812**	**33,233,585**	**256,968**	**245,756**
Liabilities					
Due to banks	22	2,879,406	141,226	21,658	1,044
Due to customers	23	24,046,245	27,302,128	180,867	201,894
Other borrowed funds		1,860,486	-	13,994	-
Other liabilities	25	402,656	255,747	3,029	1,891
Subordinated debt	24	685,905	697,875	5,159	5,161
Total liabilities		**29,874,698**	**28,396,976**	**224,707**	**209,990**Net
Shareholders' equity					
Share capital	26	3,387,148	3,387,148	25,477	25,047
Retained earnings	26	221,320	757,962	1,706	5,707
Legal reserves	26	708,110	707,672	5,326	5,233
Currency translation reserve		-	-	(43)	(101)
Revaluation reserve for available-for-sale securities	17	(27,464)	(16,173)	(205)	(120)
Total shareholders' equity		**4,289,114**	**4,836,609**	**32,261**	**35,766**
Total liabilities and shareholders' equity		**34,163,812**	**33,233,585**	**256,968**	**245,756**

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

These financial statements have been approved by Executive Board on 24 April 2018 and signed on their behalf by:

Adela Leka
Spokesperson of the Management Board

Elvira Tartari
Finance Department Manager

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 6 to 51.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

		In ALL '000		*In EUR '000*	
	Notes	**2017**	**2016**	**2017**	**2016**
Interest income	8	1,340,420	1,631,815	9,993	11,879
Interest expense	8	(200,764)	(252,134)	(1,497)	(1,835)
Net interest income		**1,139,656**	**1,379,681**	**8,496**	**10,044**
Impairment charge for credit losses	16	(162,203)	(60,444)	(1,209)	(440)
Net interest income after provision for impairment of loans		**977,453**	**1,319,237**	**7,287**	**9,604**
Fee and commission income	9	268,909	313,388	2,005	2,281
Fee and commission expense	9	(122,934)	(115,539)	(917)	(841)
Other operating income, net	10	92,888	132,205	693	890
Foreign exchange translation gains less losses		(30,855)	(5,352)	(230)	(39)
Personnel expense	12	(424,834)	(453,845)	(3,167)	(3,304)
Other operating expenses	11	(1,342,461)	(1,160,640)	10,009)	(8,376)
(Loss)/ Profit before income tax		**(581,834)**	**29,454**	**(4,338)**	**215**
Income tax expense/(credit)	13	45,630	(20,698)	340	(151)
(Loss)/ Profit for the year		**(536,204)**	**8,756**	**(3,998)**	**64**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently					
to profit or loss:					
Revaluation of available-for-sale financial assets	17	(13,283)	(21,873)	(100)	(162)
Deferred tax on the available for sale financial assets	13	1,992	3,281	15	24
Total comprehensive (loss)/income for the year		**(547,495)**	**(9,836)**	**(4,083)**	**(74)**

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

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 65.

Statement of Changes in Equity

For the year ended 31 December

In ALL '000	Share Capital	Legal Reserve	Revaluation Reserve/(Deficit)	Retained Earnings	Total
Balance at 1 January 2016	**3,387,148**	**699,829**	**2,419**	**917,477**	**5,006,873**
Transactions with owners recorded directly in equity					
Distribution of dividends	-	-	-	(160,428)	(160,428)
Total transactions with owners recorded directly in equity	**-**	**-**	**-**	**(160,428)**	**(160,428)**
Total comprehensive income/(loss) for the year					
Available-for-sale financial assets	-	-	(21,873)	-	(21,873)
Deferred tax on the available for sale asset	-	-	3,281	-	3,281
Total other comprehensive income	-	-	(18,592)	-	(18,592)
Profit for the year	-	-	-	8,756	8,756
Total comprehensive income	**-**	**-**	**(18,592)**	**8,756**	**(9,836)**
Appropriation of retained earnings	-	7,843	-	(7,843)	-
Balance at 31 December 2016	**3,387,148**	**707,672**	**(16,173)**	**757,962**	**4,836,609**
Transactions with owners recorded directly in equity					
Distribution of dividends	–	–	–	–	–
Total transactions with owners recorded directly in equity	**–**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the year					
Available-for-sale financial assets	-	-	(13,283)	-	(13,283)
Deferred tax on the available for sale asset	-	-	1,992	-	1,992
Total other comprehensive loss	-	-	(11,291)	-	(11,291)
Profit for the year	-	-	-	(536,204)	(536,204)
Total comprehensive loss	**-**	**-**	**(11,291)**	**(536,204)**	**(547,495)**
Appropriation of retained earnings	-	438	-	(438)	-
Balance at 31 December 2017	**3,387,148**	**708,110**	**(27,464)**	**221,320**	**4,289,114**

In EUR '000	Share Capital	Legal Reserves	Translation Reserve	Revaluation Reserve	Retained Earning	Total
Balance at 1 January 2016	**24,673**	**5,098**	**(204)**	**18**	**6,887**	**36,472**
Transactions with owners recorded directly in equity						
Distribution of dividends	–	–	–	–	(1,186)	(1,186)
Total transactions with owners recorded directly in equity	**–**	**–**	**–**	**–**	**(1,186)**	**(1,186)**
Total comprehensive income(loss) for the year						
Available for sale financial assets	–	–	–	(162)	–	(162)
Deferred tax on the available for sale asset	–	–	–	24	–	24
Total other comprehensive income	–	–	–	(138)	–	(138)
Profit for the year	–	–	–	–	64	64
Translation differences	374	77	103	–	–	554
Total comprehensive income for the year	**374**	**77**	**103**	**(138)**	**64**	**480**
Appropriation of retained earnings	–	58	–	–	(58)	–
Balance at 31 December 2016	**25,047**	**5,233**	**(101)**	**(120)**	**5,707**	**35,766**
Total comprehensive income/(loss) for the year						
Available for sale financial assets	–	–	–	–	(1,186)	(1,186)
Deferred tax on the available for sale asset	–	–	–	15	–	15
Total other comprehensive loss	–	–	–	(85)	–	(85)
Profit for the year	–	–	–	–	(3,998)	(3,998)
Translation differences	430	90	58	–	–	578
Total comprehensive loss for the year	–	3	–	–	**(3)**	–
Appropriation of retained earnings	–	58	–	–	(58)	–
Balance at 31 December 2017	**25,477**	**5,326**	**(43)**	**(205)**	**1,706**	**32,261**

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

Statement of Cash Flows

For the year ended 31 December

		In ALL '000		*In EUR '000*	
	Notes	**2017**	**2016**	**2017**	**2016**
Cash flows from operating activities					
Profit before income tax		(581,834)	29,454	(4,338)	215
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property and equipment and investment property	19,20	152,098	153,630	1,144	1,136
Amortization of intangible assets	213	1,690	33,664	238	249
Impairment charge for credit losses	16	162,203	60,444	1,220	447
Interest income	8	(1,340,420)	(1,631,815)	(10,082)	(12,067)
Interest expense	8	200,764	252,134	1,510	1,864
Loss/(gain) on disposal of assets		(776)	(4,683)	(6)	(35)
Charge of other provisions		75,450	4,801	568	36
		(1,102,371)	**(1,014,147)**	**(8,155)**	**(7,415)**
Changes in operating assets and liabilities:					
Compulsory reserve		322,382	30,860	2,425	228
Loans and advances to banks and other financial institutions		543,774	831,488	4,090	6,454
Loans and advances to customers		(3,066,593)	2,428,400	(23,066)	17,958
Other assets		122,001	106,810	918	790
Repossessed property		336,509	(390,612)	2,531	(2,888)
Due to banks		2,735,035	(253,182)	20,572	(1,872)
Due to customers		(3,231,236)	(1,197,921)	(24,304)	(8,858)
Other liabilities		117,247	(44,787)	882	(333)
		408,685	**(3,676,830)**	**3,019**	**(26,812)**
Interest received		1,360,295	1,749,209	10,232	12,630
Interest paid		(221,851)	(296,505)	(1,669)	(2,193)
Interest paid		(221,851)	(296,505)	(1,669)	(2,193)
Net cash used in operating activities		**(2,250,225)**	**1,855,411**	**(16,887)**	**13,717**
Cash flows from investing activities					
Purchase of financial assets available-for-sale		(1,424,507)	(2,731,996)	(10,715)	(20,203)
Proceeds from matured financial assets available-for-sale		2,452,526	2,200,145	18,447	16,270
Proceeds from sale of property and equipment		59,025	38,047	444	281
Purchases of intangible assets		(1,353)	(6,049)	(10)	(45)
Purchases of property and equipment		(67,816)	(175,309)	(510)	(1,296)
Net cash from investing activities		**1,017,875**	**(675,162)**	**7,656**	**(4,993)**
Cash flows from financing activities					
Decrease in subordinated debt		(11,400)	(10,250)	(86)	(76)
Dividend paid		–	(160,428)	–	(1,186)
Other borrowed funds		1,859,500	–	13,986	–
Net cash used in financing activities		**1,848,100**	**(170,678)**	**13,900**	**(1,262)**
Translation differences		–	–	462	358
Decrease in cash and cash equivalents		**615,750**	**1,009,571**	**5,131**	**7,820**
Cash and cash equivalents at beginning of the year		**3,985,199**	**2,975,628**	**29,471**	**21,650**
Cash and cash equivalents at end of the year	**14**	**4,600,949**	**3,985,199**	**34,602**	**29,470**

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

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts expressed in ALL '000, unless otherwise stated)

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for ProCredit Bank Sh.a. (the "Bank").

The Bank, originally known as FEFAD Bank Sh.a., 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 2017 and 2016, 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 2017 the Bank was operating from head office in Tirana, 2 branches, 5 service points, 2 supporting outlets and 10 Self Service areas (24/7 Zones) located in Tirana, Durrës, Fier, Elbasan, Korçë, Shkodër, Lezhë, Pogradec, Berat, and Vlorë.

Registered address and place of business. The official address of the Bank is Rruga "Dritan Hoxha", 92, P.O. Box 2395, Tirana, Albania.

Board of Directors

Board of Directors members as of December 2017 are:

- Borislav Kostadinov, Chairman of the Board
- Robert Scott Richards
- Wolfgang Bertelsmeier
- Mimoza Godanci
- Jordan Damcevski

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

2. Significant accounting policies

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, revaluation of available-for-sale financial assets and investment properties. 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. Use of judgements and estimates. In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

Going concern Management prepares this 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 ratio at 31 December 2017 was 13.42% while the required minimum CAR for banks in Albania is 12%. During the year ended 31 December 2017, the Bank incurred losses of ALL 536,204 thousand mainly due to a number of one-off transactions with a total impact of ALL 206,462 thousand and other non-recurring costs incurred during the year. Management expects that the Bank will generate profits starting from the year ending 31 December 2018 and will meet the minimum CAR requirements and continue as a going concern for the foreseeable future.

2. Significant accounting policies (continued)

b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or 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 and points 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 and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

c) Fees and commissions

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. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Other fee and commission income and expenses consist of fees and commissions from (for): credit cards, account service fees, international payments, domestic payments, Central Bank fees, SMS banking, guarantees and letters of credit and other fees and commissions.

Other fee and commissions are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

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

e) Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the historical exchange rate as of the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.
Presentation in EUR

In addition to presenting the financial statements in ALL, supplementary information in EUR has been prepared for the convenience of users of the financial statements, translating ALL'000 to EUR'000.

The statement of financial position and statement of changes in equity for the year ended 31 December 2017 have been translated at the official rate of the Bank of Albania as at 31 December 2017 of ALL 132.95 to EUR 1 (2016: 135.23).

The statement of changes in equity has not been translated at the historical exchange rate applying such presentation consistently. The share capital at historical exchange rate is EUR 25,699 thousand (see Note 26) and is not significantly different from the amount of EUR 25,477 thousand, as presented in the statement of financial position. The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the ALL amounts into EUR at the average exchange rate during the year of EUR 1:ALL 134.13 (2016: EUR 1: ALL 137.37).

2. Significant accounting policies (continued)

f) Income tax
Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in or in other comprehensive income.

(i) Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

(ii) Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) 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.

g) Financial instruments

(i) Recognition
The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets
The Bank classifies its financial assets into one of the following categories:

- loans and receivables, and
- assets available-for-sale.

See (h), (i), and (j).

Management determines the classification of its investments at initial recognition. The Bank did not classify any financial asset as at fair value through profit or loss during the reporting period.
Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. See (o) and (p).

(iii) Derecognition

2. Significant accounting policies (continued)

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortised cost measurement

Amortized cost 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 write-down for incurred impairment 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 net carrying amount of the financial instrument.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. Financial derivatives or other financial assets and liabilities that are not traded in an active market are measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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).

2. Significant accounting policies (continued)

(vii) Identification and measurement of impairment

Impairment of loans and advances

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised.

Impairment of loans and advances

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss for the year.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the past-due status, Bank's grading process that considers asset type, industry, geographical location, collateral type and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
(vii) Identification and measurement of impairment

All credit exposures having an outstanding amounts of EUR 30 thousand or more are assessed individually while credit exposures below this threshold level are considered insignificant and assessed on a collective basis showing indications of loss events. For insignificant impaired credit exposures, the allowance levels are calculated by the Bank based on its historical experience in the economic environment it operates. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

2. Significant accounting policies (continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss, impairment charge for credit losses.

Impairment of financial assets available-for-sale

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Restructured credit exposures

Restructured credit exposures that are past due or impaired and which are considered to be individually significant are assessed on an individual basis (see above). Restructured loans which are individually insignificant are collectively assessed for impairment.

h) Cash and cash equivalent

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

i) Loan and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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

j) Financial assets available for sale

Investment securities are initially measured at fair value plus incremental direct transaction costs.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

2. Significant accounting policies (continued)

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss (see (f)(vii)).

Other fair value changes, other than impairment losses (see (f)(vii)), are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

k) Investment property

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

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

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

l) Property and equipment

Property and equipment and investment property are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items of property and equipment.

Subsequent costs are included in the asset's carrying amount, or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred. The carrying values of property and equipment and investment property 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 and equipment is the greater of fair value less costs to sell and value in use.

The recoverable amount of property 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 and assets under construction are not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment over their estimated useful lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per the table below:

Description	**Useful life**
Computer, electronic and other equipment	5 years
Vehicles	5 years
Furniture and equipment	10 years
Buildings	40 years

2. Significant accounting policies (continued)

Property and equipment with useful lives of more than one year which fall under the materiality threshold of ALL 5'000 (2016: ALL 5'000) and, are also not material in aggregate, are expensed in profit or loss. Leasehold improvements are depreciated over the shorter of useful life and lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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 profit or loss.

m) Intangible assets

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.

n) 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 remeasured 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, who hold a recognised and relevant professional qualification and who have the experience in valuation of similar location and category, less costs to realise the sale. Repossessed collateral that is recovered either by earning rentals or capital appreciation is include 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.

o) Due from other financial institutions

Amounts due from other financial institutions are recorded when the Bank advances money to counterparty financial institutions with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other financial institutions are carried at amortised cost.

p) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's main sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements. Deposits and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

q) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Significant accounting policies (continued)

r) 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.

s) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Such financial commitments are recorded in the statement of financial position if and when they become payable or originated.

The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan 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 the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

t) 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.

u) Trade and other payables

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

v) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

Share premium represents the excess of contribution received over the nominal value of shares issued.

(iii) Dividends on ordinary shares

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.

3. New standards, amendments and interpretations not yet adopted

Adoption of new or revised standards and interpretations

The following amended standards became effective for the Bank from 1 January 2017, but did not have any material impact on the Bank:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 15.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

4. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 9 "Financial Instruments" will have an impact on the recognition and measurement, the impairment as well as on the disclosure requirements of financial instruments. The Bank does not expect that the new classification requirements will have a material impact. Based on the preliminary assessment, the application of IFRS 9 impairment requirements is expected to result in an increase in loss allowance at the moment of transition and moderate increases for expenses for allowance for losses on loans and advances. The new hedge accounting requirements will not affect the financial statements as the Bank does not apply hedge accounting. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

4. New accounting pronouncement (continued)

The management of the Bank has undertaken an IFRS 9 implementation project which is run under the supervision of ProCredit Holding Group and in line with abovementioned Group-wide principles. Based on the preliminary calculations and analysis carried out by the date of preparation of these financial statements the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's retained earnings from previous years as of 1 January 2018 is approximately EUR 4,149 thousand, representing a reduction related mainly to the increase of loss allowances under IFRS 9 as compared to loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37).

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.
The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The new standard is not expected to have a material impact on the Bank's financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The new amendment is not expected to have a material impact on the Bank's financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank will present this disclosure in its 2017 financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard is not expected to have a material impact on the Bank's financial statements.

4. New accounting pronouncement (continued)

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The new standard is not expected to have a material impact on the Bank's financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The new standard is not expected to have a material impact on the Bank's financial statements.

The following other new pronouncements are not expected to have any material impact on the Bank when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) will have a minor impact on the financial statements. The interpretation is effective for annual periods beginning on or after 1 January 2018.
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

5. Critical accounting judgments and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying 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:

(i) Impairment charge for credit losses

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, 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.

(ii) 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.

(iv) Deferred income tax asset recognition.

The recognised deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Nevertheless are dependent on the future development which are not certain.

6. Financial risk management

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

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring placements and debt securities into the Bank's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the Credit Risk Department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Management Department.

All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

The tables below set out information about the credit quality of financial assets and the allowance for impairment loss held by the Bank against those assets.

The table below represents a worst case scenario of credit risk exposures of the Bank at 31 December 2017 and 2016, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

Maximum exposure to credit risk

Credit risk exposures relating to on-balance sheet assets are as follows:

	2017	**2016**
Cash and balances with Central Bank	5,736,909	4,511,897
Loans and advances to banks and other financial institutions	119,326	1,238,954
Loans and advances to customers:		
Business Trade	9,610,584	8,097,851
Business Agriculture	1,719,490	1,710,806
Business Production	5,133,984	3,678,151
Business Transport	629,136	476,876
Business Other	3,589,533	3,459,091
Private Housing	1,908,480	2,172,211
Private Investment	85,153	107,338
PrivateOther	102,671	192,127
	22,779,031	**19,894,451**
Financial instruments available-for-sale	1,831,349	2,870,306
Other financial assets	*172,818*	*326,340*

Off balance sheet	2017	2016
Credit commitments	2,426,117	2,092,346
Financial guarantees	745,117	511,360
Letters of Credit	164,950	-
Provisions recognised as liabilities	(5,299)	(5,161)
Total	**(5,299)**	**(5,161)**

The Bank defines credit default risk from customer 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 customer credit exposures is based on a thorough implementation of the bank's lending principles:

- intensive analysis of the debt capacity of the banks' customers
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of over indebting customers
- building a personal and long-term relationship with the customer 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 differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been 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 individually significant credit exposures that are risk-relevant and a specialisation for individually significant non-risk-relevant credit exposures. For 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 bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures are taken by a credit committee. As a general principle, we consider 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. We rigorously follow 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. We apply strict rules regarding credit exposures for which, in our view, 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. Our 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.

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 Moody's.

31 December 2017	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of Albania	B+			
Current accounts		48,332	-	48,332
Mandatory reserve		2,248,545	-	2,248,545
Government securities		-	1,304,483	1,304,483
Total cash and cash equivalents, excluding cash on hand		**2,296,877**	**1,304,483**	**3,601,360**

31 December 2016	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of Albania	B+			
Current accounts		16,858	-	16,858
Mandatory reserve		2,571,192	-	2,571,192
Government securities		-	984,452	984,452
Total cash and cash equivalents, excluding cash on hand		**2,588,050**	**984,452**	**3,572,502**

Due from other financial institutions

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

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

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

At 31 December	2017	2016
Neither past due nor impaired		
BBB	-	946,757
B+	100,011	270,019
Total (see Note 15)	**100,011**	**1,216,776**

Loans and advances to customers

Below are presented loans and advances to customers and related impairment allowance for each of the Bank's internal days past due categories:

	2017		2016	
	Loans and advances	Impairment allowance	Loans and advances	Impairment allowance
Specific Impairment	1,615,828	(525,401)	1,615,638	(402,776)
Arrears 0-7 days	20,261,951	(304,769)	16,464,630	(344,886)
Arrears 8-30 days	1,658,314	(39,037)	2,446,421	(66,658)
Arrears 31-90 days	62,427	(17,592)	97,325	(29,679)
Arrears 91-180 days	27,451	(18,717)	94,440	(58,913)
Above 180 days	509,060	(450,484)	669,179	(590,270)
	24,135,031	**(1,356,000)**	**21,387,633**	**(1,493,182)**

31 December 2017	Business	Private	Total
Total gross amount	8,623,428	2,764,205	21,387,633
Allowance for impairment (individual and collective)	(1,167,815)	(188,185)	(1,356,000)
Net carrying amount	**20,682,727**	**2,096,304**	**22,779,031**

31 December 2016	Business	Private	Total
Total gross amount	8,623,428	2,764,205	21,387,633
Allowance for impairment (individual and collective)	(1,200,654)	(292,528)	(1,493,182)
Net carrying amount	**17,422,774**	**2,471,677**	**19,894,451**

Loans and advances impairment categories at 31 December 2017 and 2016 are presented as follows:

	2017			2016		
	Loans to customers		Loans to banks	Loans to customers		Loans to banks
	Business	Private		Business	Private	
Neither past due nor impaired	18,437,571	1,647,909	-	14,096,225	2,047,776	1,238,954
Past due but not impaired	1,880,688	553,035	-	3,024,078	603,916	-
Individually impaired	1,532,283	83,545	-	1,503,125	112,513	-
Gross	**21,850,542**	**2,284,489**	**-**	**18,623,428**	**2,764,205**	**1,238,954**
Less: allowance for impairment	(1,167,815)	(188,185)	-	(1,200,654)	(292,528)	-
Net carrying amount	20,682,727	2,096,304	-	17,422,774	2,471,677	1,238,954
Net carrying amount	**22,779,031**		**-**	**19,894,451**		**1,238,954**

Loans with renegotiated terms

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

- the restructuring increases the probability that the borrower will be able to repay the credit exposure
- the new payment plan is in line with the actual and expected future payment capacity of the borrower
- the borrower offers additional collateral, if possible and appropriate.

Depending on the type of restructuring (standard or impaired), the credit exposure may be categorized or not in a better category based on the performance of the exposure. Impaired restructured loans remain in the same category, independent of the performance after the restructuring.

	2017		2016	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business Trade	124,411	9,845	193,501	17,871
Business Agriculture	35,943	1,782	131,715	6,795
Business Production	34,488	1,940	165,287	10,082
Business Transport	-	-	3,107	311
Business Other	112,976	24,303	104,748	8,574
Private Housing	16,306	870	25,061	1,161
Private Investment	3,347	590	2,766	1,183
Total	**327,471**	**39,330**	**626,185**	**45,977**

31 December 2017	**Business**	**Private**	**Total**
Loans with renegotiated terms			
Carrying amount	307,818	19,653	327,471
Out of which: Impaired	124,167	4,414	128,581
Allowance for impairment	(37,869)	(1,460)	(39,329)
Net carrying amount	**269,949**	**18,193**	**288,142**

31 December 2016	**Business**	**Private**	**Total**
Loans with renegotiated terms			
Carrying amount	598,357	27,827	626,184
Out of which: Impaired	232,515	275	232,790
Allowance for impairment	(43,632)	(2,344)	(45,976)
Net carrying amount	**554,725**	**25,483**	**580,208**

Loans and advances neither past due nor impaired

All loans and advances which are neither past due nor impaired are classified in the first category of the Bank's rating. Below it is presented an analysis of standard loans and advances to customers by industry and credit quality.

	2017	%	2016	%
Business Trade	8,868,929	44%	6,699,658	41%
Business Agriculture	1,439,943	7%	1,346,037	8%
Business Production	4,814,296	24%	2,993,828	19%
Business Transport	623,847	3%	441,357	3%
Business Other	2,690,556	14%	2,615,345	16%
Private Housing	1,481,386	8%	1,785,430	11%
Private Investment	77,106	0%	95,005	1%
Private Other	89,418	0%	167,342	1%
Total	**20,085,481**	**100%**	**6,144,002**	**100%**

Past due but not impaired loans

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

An analysis of loans and advances to customers by industry amount of security is provided below:

	2017	2016
	Past due but not impaired loans	**Past due but not impaired loans**
Business Trade	799,362	1,542,309
Business Agriculture	315,130	406,786
Business Production	184,903	496,896
Business Transport	29,332	67,161
Business Other	551,961	510,926
Private Housing	468,263	485,101
Private Investment	33,828	45,015
Private Other	50,944	73,799
Total	**2,433,723**	**3,627,993**

31 December 2017	Business	Private	Total
Past due but not impaired			
Past due 0 – 30 days	1,449,585	385,198	1,834,784
Past due 31 – 90 days	35,879	26,548	62,427
Past due 91 – 180 days	21,192	6,259	27,451
Past due over 180 days	374,032	135,029	509,061
	1,880,688	**553,034**	**2,433,723**

31 December 2016	Business	Private	Total
Past due but not impaired			
Past due 0 – 30 days	2,425,066	341,983	2,767,048
Past due 31 – 90 days	59,726	37,600	97,325
Past due 91 – 180 days	75,347	19,093	94,440
Past due over 180 days	463,939	205,240	669,179
	3,024,078	**603,916**	**3,627,992**

Loans and advances to customers individually impaired

The breakdown of gross individually impaired loans and advances along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2017		2016	
	Individually impaired loans	**Fair value of collateral**	**Individually impaired loans**	**Fair value of collateral**
Business Trade	301,992	198,661	306,772	249,168
Business Agriculture	136,279	77,115	150,672	140,227
Business Production	313,781	174,389	371,685	338,920
Business Transport	4,756	-	5,617	653
Business Other	775,475	303,189	668,379	640,246
Private Housing	82,481	73,756	110,916	107,878
Private Other	1,064	-	1,597	-
Total	**1,615,828**	**827,110**	**1,615,638**	**1,477,092**

The fair value of collaterals disclosed above is determined by local certified evaluators and represents market value realisable by the legal owners of the assets.

31 December 2017	**Business**	**Private**	**Total**
Impaired			
Past due 0 – 30 days	792,901	60,006	852,907
Past due 31 – 90 days	36,311	8,651	44,962
Past due 91 – 180 days	43,187	-	43,187
Past due over 180 days	659,884	14,887	674,771
	1,532,283	**83,544**	**1,615,827**

Allowance for impairment	**Business**	**Private**	**Total**
Individual	(504,135)	(11,577)	(515,712)
Collective	(8,913)	(776)	(9,689)
Total allowance for impairmen	**(513,048)**	**(12,353)**	**(525,401)**

31 December 2016	**Business**	**Private**	**Total**
Impaired			
Past due 0 – 30 days	1,029,135	69,178	1,098,313
Past due 31 – 90 days	78,524	7,406	85,930
Past due 91 – 180 days	99,958	7,792	107,750
Past due over 180 days	295,508	28,137	323,645
	(375,749)	**(27,027)**	**(402,776)**

Allowance for impairment	**Business**	**Private**	**Total**
Individual	(353,725)	(25,508)	(379,233)
Collective	(22,024)	(1,519)	(23,543)
Total allowance for impairmen	**(375,749)**	**(27,027)**	**(402,776)**

Impairment and provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 3.(f)(vii)).

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances demand it. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

The collective assessment of the impairment of a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics. The quantitative default rates calculated in this manner were subjected to a qualitative analysis (migration analysis).

According to the internal methodology the Bank shall determine loan loss provisions according to the allocation of credit exposures into three different categories:

- Specific Individual Impairment
- Portfolio-Based Provisions
- Lump-Sum Specific Provisions

Specific Individual Impairment: in this category, the Bank would provision all individually significant credit exposures that are impaired based on the number of days in arrears (more than 30 days in arrears).

Portfolio-based Impairment: in this category, the Bank would provision all credit exposures (Individually significant and individually insignificant), that show no objective signs of impairment.
Lump-Sum Specific Provisions: loan loss provisions are determined for individually insignificant credit exposures that are impaired based on the number of days in arrears (more than 30 days in arrears).

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 30 thousand or USD 30 thousand (2016: EUR 30 thousand or USD 30 thousand) at least yearly or when individual circumstances demand it. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Write-off policy
The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The smaller the outstanding amount, the higher the number of days in arrears and the greater the uncertainties surrounding recoveries (such as an unpredictable legal environment) are, the smaller will be the chances of recovery by the Bank. Repayments of loans previously written off amounted to ALL 25,972 thousand in 2017 (2016: ALL 9,284 thousand).

Financial assets available-for-sale
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-). 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	2017	2016
AAA	133,711	136,472
B+	1,697,638	2,733,834
Total	**1,831,349**	**2,870,306**

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 27).

(i) 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.

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 2017.

31 December 2017	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the asset	Fair value of the collateral	Carrying value of the asset	Fair value of the collateral
Business	5,068,589	5,399,548	15,614,138	6,450,405
Private	1,237,275	1,298,063	859,029	413,486
	6,305,864	**6,697,6111**	**6,473,16**	**76,863,891**

31 December 2016	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the asset	Fair value of the collateral	Carrying value of the asset	Fair value of the collateral
Business	10,228,019	10,674,071	7,194,755	3,830,280
Private	1,651,918	1,726,216	819,759	518,183
	11,879,937	**12,400,287**	**8,014,514**	**4,348,463**

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.

(iii) 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 2017 and 2016. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2017			2016		
	OECD countries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks	-	2,296,877	2,296,877	-	2,588,050	2,588,050
Loans and advances to banks	19,315	100,011	119,326	968,935	270,019	1,238,954
Loans and advances to customers	-	22,779,031	22,779,031	-	19,894,451	19,894,451
Available-for-sale financial assets	133,711	1,697,638	1,831,349	136,472	2,733,834	2,870,306
Other financial assets	18,857	153,961	172,818	-	326,340	326,340
Total	**171,883**	**27,027,518**	**27,199,401**	**1,105,407**	**25,812,694**	**26,918,101**

Loans and advances to customers based on specific industry sectors at 31 December 2017 and 2016 are presented below:

	31 December			
Industry sector	**2017**	**%**	**2016**	**%**
Trade	9,925,151	44	8,615,994	43
Industry and other production	5,516,495	24	4,209,097	21
Construction	750,964	3	492,293	3
Transport	671,823	3	533,590	3
Services	346,988	2	484,154	2
Other	5,567,610	24	5,559,323	28
Total	**19,894,451**	**100**	**22,428,654**	**100**

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) 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 PCB Albania).

As a matter of principle, the Bank does not engage in proprietary trading and does not enter any speculative positions on foreign exchange markets for the purpose of generating potential additional income. Therefore, it is strictly 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 Group ALCO or Group Risk Management Committee. Since the Bank's capital is denominated in EUR, while it operates in a non-EUR country, it has an approved long foreign currency position to account for the capital. Compliance to approved OCP limits are regularly reviewed and monitored by Risk Management Department. Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in ALL):

	2017	2016
USD	111.10	128.17
EUR	132.95	135.23
GBP	149.95	157.56
CHF	113.94	126.05

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2017 and 2016, translated into ALL'000.

31 December 2017	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,867,024	3,941,796	898,732	3,320	6,710,872
Loans and advances to banks	100,011	-	19,315	-	119,326
Financial instruments available-for-sale	1,697,638	133,711	-	-	1,831,349
Loans and advances to customers	10,415,929	11,727,920	635,182	-	22,779,031
Other financial assets	86,653	85,443	722	-	172,818
Total Financial Assets	**14,167,255**	**15,888,870**	**1,553,951**	**3,320**	**31,613,396**
Liabilities					
Due to banks	538,375	2,341,031	-	-	2,879,406
Due to customers	13,697,700	8,729,438	1,616,500	2,608	24,046,245
Other borrowed funds	530,070	1,330,416	-	-	1,860,486
Other financial liabilities	167,491	143,885	35,065	32	346,474
Subordinated debt	-	685,905	-	-	685,905
Total Financial Liabilities	**14,933,636**	**13,230,675**	**1,651,565**	**2,640**	**29,818,516**
Net on-balance sheet currency position	**(766,381)**	**2,658,195**	**(97,614)**	**680**	**1,794,880**
Off-balance sheet commitments and guarantees	**1,239,870**	**1,784,386**	**311,929**	**-**	**3,336,184**
Credit commitments	932,069	1,398,142	95,906		2,426,117
Off balance sheet - letters of credit	17,254	147,696	-		164,950
Off balance sheet - bank guarantees	307,801	368,989	68,327		745,117
Total credit related commitments	**1,257,124**	**1,914,827**	**164,233**	**-**	**3,336,184**

31 December 2016	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	2,235,273	3,112,097	485,640	6,398	5,839,408
Loans and advances to banks	270,019	946,757	22,178	–	1,238,954
Financial instruments available-for-sale	2,733,834	136,472	–	–	2,870,306
Loans and advances to customers	10,182,788	8,889,631	822,032	–	19,894,451
Other financial assets	288,707	36,403	1,230	–	326,340
Total Financial Assets	**15,710,621**	**13,121,360**	**1,331,080**	**6,398**	**30,169,459**
Liabilities					
Due to banks	6,030	6,982	128,214	–	141,226
Due to customers	16,241,833	9,773,634	1,279,727	6,934	27,302,128
Other financial liabilities	118,337	88,065	13,624	66	220,092
Subordinated debt	–	697,875	–	–	697,875
Total Finacial Liabilities	**16,366,200**	**10,566,556**	**1,421,565**	**7,000**	**28,361,321**
Net on-balance sheet currency position	**(655,579)**	**2,554,804**	**(90,485)**	**(602)**	**1,808,138**
Off-balance sheet commitments and guarantees	**1,156,169**	**1,354,704**	**92,834**	–	**2,603,707**
Credit commitments	902,090	1,147,410	42,847	-	2,092,347
Off balance sheet - letters of credit	-	-	-	-	-
Off balance sheet - bank guarantees	254,079	207,294	49,986	-	511,360
Total credit related commitments	**1,156,169**	**1,354,704**	**92,834**	**-**	**2,603,707**

The Bank's sensitivity analysis takes into consideration the 7 year historical exchange rate movements of the ALL against the foreign currencies, EUR and USD. These are the sensitivity rates used when reporting foreign currency risk to key management personnel. Based on statistical methods, they represent management's assessment of the reasonably possible change in foreign exchange rates.

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank given its present currency risk exposure. The calculation of such impact based on 31 December 2017 data and 31 December 2016 (under standard scenario) is presented below:

			Effect on profit and loss	
Currency	**Historical shocks 2017**	**Historical shocks 2016**	**31 December 2017**	**31 December 2016**
EUR	-3.45%	-2.59%	(116,513)	(89,913)
USD	-1.93%	13.91%	344	(1,060)
Total effect			**(116,169)**	**(90,973)**

(ii) 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.

The Bank does not aim to earn profits through speculation in the interest rate market. Rather, it seeks to ensure that its interest rate structure is sufficiently balanced across all maturities by staying within the limits defined in the Interest Rate Risk Management Policy and Central Bank Instruction on Interest Rate Risk Management. The Bank achieves this by matching repricing profiles between assets and liabilities.

To monitor interest rate changes, the Bank employs a repricing gap analysis and captures the impact on the economic value (long term perspective) and the impact on earnings (short-term perspective) deriving from a one-time shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts; this is done for all interest rate risk relevant currencies. By assessing both indicators simultaneously, it is possible to determine the full scope of the interest rate risk exposure.

Considering EUR and USD denominated asset and liability structures as at 31 December 2017 and 2016, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

ALL Interest Sensitivity Gap At 31 December 2017		Up to 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		-	-	-	-	-	-	-	576,421
Balances with Central Banks		1,251,908	-	-	-	-	-	1,251,908	38,695
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	435,720	871,300	400,000	-	-	-	1,707,020	(9,382)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		100,000	-	-	-	-	-	100,000	11
Loans and advances to customers	Fixed	1,019,325	2,018,472	1,710,174	876,139	1,280,916	812,917	7,717,942	(526,139)
	Var.	173,896	1,497,209	1,785,935	-	-	-	3,457,040	(232,928)
Other financial assets		-	-	-	-	-	-	-	86,653
Total assets		**2,980,849**	**4,386,980**	**3,896,108**	**876,139**	**1,280,916**	**812,917**	**14,233,910**	**(66,669)**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	8,001
Current accounts from customers		1,402,693	-	-	-	-	-	1,402,693	3,449,586
Deposits from customers		703,439	2,757,251	3,582,836	1,204,928	502,973	-	8,751,428	93,993
Borrowings and subordinated debt	Fixed	890,000	170,000	-	-	-	-	1,060,000	443
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	167,491
Total liabilities		**2,996,132**	**2,927,251**	**3,582,836**	**1,204,928**	**502,973**	**-**	**11,214,121**	**3,719,514**
IR sensitivity gap- open position		(15,283)	1,459,729	313,273	(328,790)	777,943	812,917	3,019,789	(3,786,183)

EUR Interest Sensitivity Gap At 31 December 2017		Up to 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		-	-	-	-	-	-	-	357,897
Balances with Central Banks		854,994	-	-	-	-	-	854,994	4,570
Current accounts with banks		-	-	-	-	-	-	-	2,724,335
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	211
	Var.	132,950	-	-	-	-	-	132,950	550
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	1,271,251	2,151,414	2,218,931	1,262,690	2,161,398	1,187,586	10,253,270	(464,813)
	Var.	496,607	814,584	683,908	-	-	-	1,995,099	(49,646)
Other financial assets		-	-	-	-	-	-	-	85,443
Total assets		**2,755,802**	**2,965,998**	**2,902,839**	**1,262,690**	**2,161,398**	**1,187,586**	**13,236,314**	**2,658,547**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	11,590
Current accounts from customers		1,882,865	-	-	-	-	-	1,882,865	4,553,458
Deposits from customers		112,079	697,575	1,265,588	172,491	42,888	-	2,290,621	2,494
Borrowings and subordinated debt	Fixed	664,750	1,263,025	398,850	1,329,500	3,656,125	-	-	3,732
	Var.	664,750	-	-	-	-	-	664,750	21,155
Other financial liabilities		-	-	-	-	-	-	-	143,885
Total liabilities		**3,324,444**	**1,960,600**	**1,664,438**	**1,501,991**	**42,888**	**-**	**8,494,361**	**4,736,313**
IR sensitivity gap- open position		(568,642)	1,005,398	1,238,401	(239,301)	2,118,510	1,187,586	4,741,952	(2,077,766)

USD Interest Sensitivity Gap At 31 December 2017		**Up to 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		-	-	-	-	-	-	-	39,645
Balances with Central Banks		141,729	-	-	-	-	-	141,729	4,981
Current accounts with banks		-	-	-	-	-	-	-	712,377
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	19,315
Loans and advances to customers	Fixed	33,828	325,018	144,019	29,835	38,137	7,870	578,708	(39,638)
	Var.	-	-	91,092	-	-	-	91,092	(956)
Other financial assets		-	-	-	-	-	-	-	722
Total assets		**175,557**	**325,018**	**235,110**	**29,835**	**38,137**	**7,870**	**811,528**	**736,447**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		228,067	-	-	-	-	-	228,067	698,015
Deposits from customers		74,010	217,493	374,556	12,769	9,223	-	688,050	2,367
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	35,065
Total liabilities		**302,078**	**217,493**	**374,556**	**12,769**	**9,223**	**-**	**916,118**	**735,447**
IR sensitivity gap- open position		(126,521)	107,526	(139,446)	17,066	28,915	7,870	(104,589)	999

ALL Interest Sensitivity Gap At 31 December 2016		**Up to 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		-	-	-	-	-	-	-	749,988
Balances with Central Banks		1,485,105	-	-	-	-	-	1,485,105	179
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	300,000	1,389,570	800,000	271,300	-	-	2,760,870	(27,036)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		270,000	-	-	-	-	-	270,000	19
Loans and advances to customers	Fixed	1,237,434	1,683,569	1,675,951	951,036	1,364,513	812,118	7,724,621	(697,612)
	Var.	222,077	1,410,431	1,830,720	-	-	-	3,463,228	(307,449)
Other financial assets		-	-	-	-	-	-	-	288,707
Total assets		**175,557**	**325,018**	**235,110**	**29,835**	**38,137**	**7,870**	**811,528**	**736,447**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	6,030
Current accounts from customers		2,057,945	-	-	-	-	-	2,057,945	4,127,618
Deposits from customers		980,787	3,031,378	4,304,131	1,182,034	444,681	-	9,943,011	113,261
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	118,337
Total liabilities		**3,038,732**	**3,031,378**	**4,304,131**	**1,182,034**	**444,681**	**-**	**12,000,955**	**4,365,245**
IR sensitivity gap- open position		475,884	1,452,193	2,540	40,302	919,833	812,118	3,702,869	(4,358,448)

EUR Interest Sensitivity Gap At 31 December 2016		Up to 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		-	-	-	-	-	-	-	486,167
Balances with Central Banks		952,441	-	-	-	-	-	952,441	299
Current accounts with banks		-	-	-	-	-	-	-	1,673,190
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	215
	Var.	135,230	-	-	-	-	-	135,230	1,028
Term deposits with banks		270,460	405,690	270,460	-	-	-	946,610	147
Loans and advances to customers	Fixed	1,040,250	1,249,897	1,383,464	868,636	1,503,623	997,743	7,043,613	(341,224)
	Var.	486,323	933,673	840,085	-	-	-	2,260,081	(72,905)
Other financial assets		-	-	-	-	-	-	-	36,402
Total assets		**2,884,704**	**2,589,260**	**2,494,009**	**868,636**	**1,503,623**	**997,743**	**11,337,975**	**1,783,318**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	6,982
Current accounts from customers		2,758,014	-	-	-	-	-	2,758,014	5,314,995
Deposits from customers		147,818	517,583	879,790	113,370	40,667	-	1,699,228	1,397
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	676,150	-	-	-	-	-	676,150	21,725
Other financial liabilities		-	-	-	-	-	-	-	88,065
Total liabilities		**3,581,982**	**517,583**	**879,790**	**113,370**	**40,667**	**-**	**5,133,391**	**5,433,165**
IR sensitivity gap- open position		(697,278)	2,071,678	1,614,219	755,266	1,462,956	997,743	6,204,584	(3,649,847)

USD Interest Sensitivity Gap At 31 December 2016		Up to 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		-	-	-	-	-	-	-	91,355
Balances with Central Banks		133,467	-	-	-	-	-	133,467	16,559
Current accounts with banks		-	-	-	-	-	-	-	244,259
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	22,178
Loans and advances to customers	Fixed	5,897	375,610	232,435	36,093	48,772	17,930	716,737	(14,910)
	Var.	-	4,924	117,302	-	-	-	122,226	(1,956)
Other financial assets		-	-	-	-	-	-	-	1,230
Total assets		**139,364**	**380,534**	**349,737**	**36,093**	**48,772**	**17,930**	**972,430**	**358,716**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		244,633	-	-	-	-	-	244,633	480,791
Deposits from customers		106,233	194,279	232,380	10,854	8,450	-	552,195	2,108
Borrowings and subordinated debt	Fixed	128,170	-	-	-	-	-	128,170	44
	Var.	-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	13,624
Total liabilities		**479,036**	**194,279**	**232,380**	**10,854**	**8,450**	**-**	**924,999**	**496,567**
IR sensitivity gap- open position		(339,672)	186,256	117,357	25,239	40,322	17,930	47,431	(137,851)

6. Financial risk management (continued)

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering EUR and USD denominated asset and liability structures as at 31 December 2017 and 2016, and assuming a parallel shift of interest rate for +/-200bp and 100bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

Estimated Profit (loss) effect:	2017		2016	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	35,979	19,545	141,660	70,830
Change EUR market rates	96,924	40,602	71,615	35,807
Change USD market rates	14,973	7,054	2,392	1,196
Total effect (not-netted)	147,876	67,201	215,667	107,833
As % of capital	3.03%	1.38%	4.00%	2.00%

(iii) Liquidity risk

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

The Bank aims to keep the expected cumulative maturity gap positive. When the expected cumulative maturity gap is not positive, the Bank considers the liquidity as a "watch liquidity position".

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

31 December 2017	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	6,710,872	-	-	-	-	6,710,872
Trading securities	434,937	596,415	393,155	-	-	1,424,507
Due from other banks	100,011	-	-	-	19,315	119,326
Loans and advances to customers	1,141,495	1,453,003	8,074,808	8,669,584	3,440,141	22,779,031
Investment securities available for sale	-	273,131	133,500	211	-	406,842
Other financial assets	172,818	-	-	-	-	172,818
Total	**8,560,133**	**2,322,549**	**8,601,463**	**8,669,795**	**3,459,456**	**31,613,396**
Liabilities						
Due to other banks	1,046,094	1,434,371	398,940	-	-	2,879,406
Customer accounts – Business	4,250,937	64,129	296,986	30,365	-	4,642,417
Customer accounts – Private	8,848,315	3,554,622	4,822,279	2,038,056	140,556	19,403,829
Other borrowed funds	530,070	-	-	1,330,416	-	1,860,486
Subordinated debt	21,155	-	-	664,750	-	685,905
Gross loan commitments	2,426,117	-	-	-	-	2,426,117
Financial guarantees	910,067	-	-	-	-	910,067
Other financial liabilities	346,474	-	-	-	-	346,474
Total potential future payments for financial obligations	**18,379,229**	**5,053,123**	**5,518,205**	**4,063,587**	**140,556**	**33,154,699**
Liquidity gap arising from financial instruments	**(9,819,095)**	**(2,730,574)**	**3,083,258**	**4,606,208**	**3,318,900**	**(1,541,303)**

31 December 2016	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,839,407	-	-	-	-	5,839,407
Trading securities	299,350	1,376,532	784,813	-	-	2,460,696
Due from other banks	540,479	135,230	541,067	22,178	-	1,238,954
Loans and advances to customers	3,475,297	334,176	3,770,343	5,863,946	6,450,689	19,894,451
Investment securities available for sale	-	273,131	133,500	211	-	406,842
Other financial assets	3 26,340	-	-	-	-	326,340
Total	**10,480,873**	**1,845,939**	**5,096,222**	**6,295,734**	**6,450,689**	**30,169,457**
Liabilities						
Due to other banks	141,226	-	-	-	-	141,226
Customer accounts – Business	12,671,634	3,662,216	5,395,842	1,800,055	-	23,529,747
Customer accounts – Private	3,670,899	81,023	20,459	-		3,772,381
Subordinated debt	21,725	-	-	676,150	-	697,875
Gross loan commitments	2,092,347	-	-	-		2,092,347
Financial guarantees	511,360	-	-	-	-	511,360
Other financial liabilities	220,092	-	-	-	-	220,092
Total potential future payments for financial obligations	**19,329,283**	**3,743,239**	**5,416,301**	**2,476,205**	**-**	**30,965,029**
Liquidity gap arising from financial instruments	**(8,848,411)**	**(1,897,301)**	**(320,079)**	**3,819,529**	**6,450,689**	**(795,572)**

For liquidity purposes the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is very unlikely. Therefore the Bank does not consider having the liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario.

The Management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap.

(c) Capital management

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%.

Regulatory capital is the Bank's capital, calculated pursuant to the requirements of the Bank of Albania regulation, 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.

6. Financial risk management (continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2017 and 2016.

During these two years, the Bank complied with all of the externally imposed capital requirements

Tier 1 capital	2017	2016
Share capital	3,387,148	3,387,148
Statutory reserve	708,110	707,671
Translation exposure	29,498	88,091
Statutory accumulated (losses)/profits	(416,115)	63,891
Statutory intangible assets	(98,262)	(128,881
Total qualifying Tier 1 capital	**3,610,379**	**4,117,920**
Tier 2 capital		
Subordinated liability	685,905	697,875
Other deductions	(184,179)	(163,581)
Total qualifying Tier 2 capital	**501,726**	**534,294**
Total regulatory capital	**4,112,105**	**4,652,214**
Total risk-weighted assets	**30,630,823**	**28,200,283**
Risk-weighted assets:		
On-balance sheet	26,271,363	23,706,574
Off-balance sheet	912,516	509,789
Risk assets for operational risk	3,054,130	3,703,378
Risk assets for market risk	392,814	280,543
Total risk-weighted assets	**30,630,823**	**28,200,283**
Tier I capital adequacy ratio	**11.79%**	**14.60%**
Tier II capital adequacy ratio	**13.42%**	**16.50%**

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 II). The capital management of the Bank is governed by the Bank Policy on Capital Management and the Bank Policy on Risk-Bearing Capacity. Regulatory and Basel II capital ratios, the Tier 1 leverage ratio and the risk-bearing capacity are monitored on a monthly basis by the Bank Risk Management Committee and the Group Risk Management Committee. Based on these methods, during the year 2017, the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2017 is calculated at 17.05% (2016: 18.90%).

(d) Risk bearing capacity

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses. The following concepts were used to calculate potential losses in the different risk categories:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 95% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock for EUR/USD (2 percentage points, Basel interest rate shock) and higher (historical) shock levels for other currencies.
- Operational risk: Operational risk management is a distinct area within the overall risk management of the ProCredit Bank. The operational risk management processes are integrated into day-to-day risk management activities and implemented at all levels. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, from people and systems, or from external events. This definition includes legal risk as well as reputational risk.

The overall objectives of the ProCredit Bank's approach to the management of operational risks are:

- To understand the drivers of the operational risks
- To be able to identify critical issues as early as possible
- To avoid losses caused by operational risks

The bank has therefore taken strategic decisions on the following:

- The bank shall operate with a high degree of simplicity, transparency, and diversification. Emphasis is to be put on open communication, corporate values and staff loyalty
- Segregation of duties and the "four-eyes principle" shall be implemented wherever necessary
- Processes shall be clearly defined and documented
- Internal Audit conducts regular reviews
- Strong focus shall be placed on the corporate culture and staff development
- The bank shall implement high technical standards in terms of IT hardware, software and technical backup systems

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

7. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

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

Level 1: inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry bank, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Inputs other than quoted market prices included within

Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

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

Available-for-sale financial assets (debt)	Fair Value	Level 1	Level 2	Level 3
31 December 2017				
Treasury bills	1,424,507	-	1,424,507	-
Bonds	406,631	-	406,631	-
Shares	211	-	211	-
Total	**1,831,349**	**-**	**1,831,349**	**-**

Available-for-sale financial assets (debt)	Fair Value	Level 1	Level 2	Level 3
31 December 2016				
Treasury bills	2,460,696	-	2,460,696	-
Bonds	409,395	-	409,395	-
Shares	215	-	215	-
Total	**2,870,306**	**-**	**2,870,306**	**-**

(c) Financial instruments not measured at fair value

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

	31 December 2017			1 December 2016		
	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
Financial Assets						
Loans and receivables						
Cash and balances with Central Banks	6,710,872	6,710,872	-	5,839,407	5,839,407	-
Loans and advances to banks	119,326	119,326	-	1,238,954	1,238,954	-
Current accounts	-	-	-	-	-	-
Time deposits with banks	-	-	-	-	-	-
Loans and advances to customers	22,779,031	-	22,735,553	19,894,451	-	19,911,270
Agricultural loans	1,719,490	-	1,713,857	1,765,996	-	1,768,317
Business loans	18,963,237	-	18,927,587	16,913,571	-	16,927,691
Private loans	187,824	-	186,618	315,812	-	315,857
Housing loans	1,908,479	-	1,907,490	899,072	-	899,404
Other financial assets	172,818	172,818	-	326,340	326,340	-
Financial Liabilities						
Due to banks	2,879,406	2,879,406	-	141,226	141,226	-
Customers' deposits	24,046,245	12,209,273	11,943,692	27,302,129	14,976,071	12,472,829
Current accounts	8,693,871	8,693,871	-	9,910,648	9,910,648	-
Saving accounts and others	3,515,403	3,515,403	-	5,065,423	5,065,423	-
Term deposits	11,730,099	-	11,836,819	12,194,434	-	12,341,205
Accrued interest	106,873	-	106,873	131,624	-	131,624
Borrowings and subordinated debt						
Borrowings	1,860,486	1,860,486	-	-	-	-
Subordinated debts	685,905	-	685,905	697,875	-	697,875
Other financial liabilities	346,474	346,474	-	220,092	220,092	-

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

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

8. Net interest income

Interest income was earned on the following assets:

	2017	2016
Interest income		
Loans and advances to customers	1,253,653	1,560,330
Financial instruments available-for-sale	43,392	49,039
Loans and advances to financial institutions	17,524	22,446
Other interest income	25,851	-
Total interest income	**1,340,420**	**1,631,815**
Interest expense		
Due to customers	(139,036)	(201,430)
Interest expenses on subordinated debts	(42,981)	(45,223)
Interest expenses on financial institutions	(1,344)	-
Other	(17,403)	(5,481)
Total interest expense	**(200,764)**	**(252,134)**
Net interest income	**1,139,656**	**1,379,681**

Included within interest income from loans and advances to customers for the year ended 31 December 2017 is a total of ALL 16,376 thousand (2016: ALL 30,753 thousand) relating to income from unwinding effect for impaired loans.

9. Net fee and commission income

Fees and commissions income were comprised as follows:

	2017	2016
Money transfer and cheques	66,086	75,487
Account maintenance fees	99,793	114,716
Card fees	78,780	87,986
Letters of credit and guaranties	2,440	1,539
Banking services fees	14,522	24,630
Other	7,288	9,030
Total fee and commission income	**268,909**	**313,388**
Transfer commission	(5,625)	(6,826)
Cards fees expense	(97,134)	(93,063)
Other	(20,176)	(15,650)
Total fee and commission expense	**(122,935)**	**(115,539)**
Net fee and commission income	**145,974**	**197,849**

10. Other operating income, net

	2017	2016
Repayment of loans previously written off	25,972	9,284
Gain on sale of fixed assets	37,848	22,617
Sale of properties acquired through legal process	11,231	1,170
Other	17,837	89,167
Reversal of other provisions	-	9,967
Total	**92,888**	**132,205**

All repayments of loans previously written off relate to loans and advances to customers.

11. Other operating expenses

	2017	2016
Depreciation of investment property, property and equipment	152,098	153,630
Rent expense	81,922	102,607
Consultancy, legal fees and other services	136,134	112,587
IT, Maintenance and repairs	245,750	291,321
Telephone and electricity	73,837	84,857
Deposit insurance ASD	83,839	81,272
Advertising	11,013	16,888
Transportation and business trip expenses	77,756	57,799
Amortization of intangible assets	31,690	33,664
Security services	25,430	25,897
Training	29,672	34,013
Office supplies	11,209	18,164
Insurance	11,490	10,793
Write down of repossessed assets	92,993	14,769
Impairment of investment property	6,173	-
Other provision	17,960	-
Other expenses	253,495	122,379
Total	**1,342,461**	**1,160,640**

12. Personnel expenses

Personnel expenses were comprised as follows:

	2017	2016
Salaries	374,847	398,998
Social insurance	30,863	33,555
Defined state contribution plan	13,227	14,380
Other	5,897	6,912
Total	**424,834**	**453,845**

At 31 December 2017 the Bank had 202 employees (31 December 2016: 258 employees).

13. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2017 and 2016 is presented as it follows:

	2017	2016
Current tax	-	14,720
Deferred tax benefit/(expense)	(45,630)	5,978
Income tax benefit/(expense)	**(45,630)**	**20,698**

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% (2016: 15%).

(b) Amounts recognised in Other Comprehensive Income ('OCI')

	2017			2016		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Available for sale investment	(13,283)	1,992	(11,291)	(21,873)	3,281	(18,592)
Total	**(13,283)**	**1,992**	**(11,291)**	**(21,873)**	**3,281**	**(18,592)**

(c) Reconciliation of the effective tax rate

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

	2017	2016
(Loss)/Profit before taxes	(581,834)	29,454
Theoretical (credit) tax calculated at 15% (2016:15%)	(87,275)	4,418
Non-deductible expenses	53,472	10,302
Other	(11,827)	5,978
Income tax expense	**(45,630)**	**20,698**

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 15% (2016: 15%)

	2015	Movements In profit or loss	Movements In OCI	2016	Movements In profit or loss	Movements In OCI	2017
Deferred tax assets/(liabilities)							
Available-for-sale investments	(426)	-	3,281	2,855	-	1,992	4,847
Accelerated accounting depreciation	5,884	(2,044)	-	3,840	(1,028)	-	2,812
Write down of repossessed property	9,660	1,616	-	11,276	12,174	-	23,450
Other provisions	4,937	(5,550)	-	(613)	**681**	**-**	**68**
Loss for the year	-	-	-	-	33,803	-	33,803
Net deferred tax assets/(liabilities)	**20,055**	**(5,978)**	**3,281**	**17,358**	**45,630**	**1,992**	**64,980**

14. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2017	2016
Cash on hand	973,963	1,327,511
Current accounts with non-residents	3,440,032	1,923,847
Amounts held at Central Bank		
Current account	48,332	16,858
	4,462,327	3,268,216
Statutory reserve	2,248,545	2,571,192
Total	**6,710,872**	**5,839,408**

Compulsory reserves with Central Bank represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as 10% of balances due to customers and are both in LEK and in foreign currencies (mainly USD and EUR).

Cash and cash equivalents at 31 December 2017 and 2016 are presented below:

	2017	2016
Cash and cash equivalents (note 14)	4,462,327	3,268,216
Loans and advances to financial institutions with maturities of three months or less (note 15)	100,011	675,709
Receivables from ATM transactions (note 18)	38,611	41,274
Total	**4,600,949**	**3,985,199**

15. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2017	2016
Deposits with non-residents	100,011	1,216,776
Other accounts	19,315	22,178
Total	**119,326**	**1,238,954**

Loans and advances to financial institutions of ALL 100,011 (2016: 675,709) with maturities up to three months are included in cash and cash equivalents (see note 13). As at 31 December 2016, all the other deposits have contractual maturities of up to one year.

16. Loans and advances to customers

Loans and advances consisted of the following:

	2017	2016
Loans to customers	16,944,632	16,075,190
Overdrafts	7,055,430	5,137,839
Credit Cards	29,669	49,490
Accrued interest	105,300	125,114
	24,135,031	**21,387,633**
Allowances for impairment losses	(1,356,000)	(1,493,182)
	22,779,031	**19,894,451**

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

	2017	2016
At 1 January	1,493,182	1,692,328
Impairment charge for the year	162,203	60,444
Loans written off	(263,348)	(209,711)
Translation effect	(36,037)	(49,879)
Total	**1,356,000**	**1,493,182**

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

	2017	2016
Loans in Lek	2.5% to 15%	2% to 21%
Loans in Euro	2% to 12%	2% to 12.75%
Loans in Usd	2.7% to 10.5%	2% to 12.75%

17. Letrat me vlerë të vendosjes

Instrumentet financiare letrat me vlerë të vendosjes përbëhen nga bono thesari dhe obligacione dhe paraqitën si më poshtë vijon:

	2017	2016
Bono thesari	1,424,507	2,460,696
Obligacione	406,631	409,396
	1,831,138	**2,870,092**
Aksione	211	214
Totali	**1,831,349**	**2,870,306**

17. Financial instruments available-for-sale

Financial instruments available-for-sale are comprised of treasury bills and bonds and are presented as follows:

	2017	2016
Treasury bills	1,424,507	2,460,696
Bonds	406,631	409,396
	1,831,138	**2,870,092**
Shares	211	214
Total	**1,831,349**	**2,870,306**

As at 31 December 2017, the Bank holds one bond from German Nordrhein-Westfalen, denominated in EUR, and rated AAA based on Fitch rating (maturity in October 2018) and two other Albanian Government Bonds in ALL rated B+ based on Fitch rating (with maturities in February and March 2018).

The movement in investments securities is summarised as follows:

	2017	2016
At 1 January	2,870,092	2,385,756
Additions	1,424,506	2,731,996
Matured	(2,450,537)	(2,196,857)
Change in accrued interest	360	(28,930)
Gains from changes in fair value	(13,283)	(21,873)
Total	**1,831,138**	**2,870,092**

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

	2017	2016
At 1 January	(16,173)	2,419
Additions	340	-
Disposals (reclassified to profit or loss)	(13,623)	(21,873)
Net (disposals)/additions	(13,283)	(21,873)
Total at 31 December, before income tax	**(29,456)**	**(19,454)**
Deferred tax on the revaluation reserve of AFS instruments	1,992	3,281
Revaluation reserve for available-for-sale investments	**(27,464)**	**(16,173)**

Treasury bills

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

	2017			2016		
Issuer	Maturity	Yield	Carrying value	Maturity	Yield	Carrying value
Albanian Government	12 months	1.80% - 3.18%	1,424,507	12 months	1.28% - 3.22%	2,460,696
			1,424,507			**2,460,696**

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

18. Other assets

	2017	2016
Receivables from ATM transactions	38,611	41,274
Other debtors	134,207	285,066
Other financial assets	**172,818**	**326,340**
Repossessed properties	932,517	1,356,262
Prepaid expenses	182,168	153,309
Total	**1,287,503**	**1,835,911**

Other debtors mainly relate to prepayments made to Bailiff Offices that collect funds from loan customers. Other financial assets are neither past due nor impaired. The repossessed properties are collaterals obtained through legal processes and include land, buildings and business premises, which are not used by the Bank for its core operations. Repossessed properties obtained due to legal process are to be sold as soon as practicable (please see note 4.a.(iii)). The Bank fully writes down repossessed property within 7 years from initial recognition. Based on the management historical observations and experience on recovery from such assets. The movement of repossessed assets item during the reporting period is presented as follows:

	2017	2016
Balance at the beginning of the period	1,356,262	980,419
Additions during period	84,229	430,780
Disposals during the period	(420,738)	(40,168)
Reversal of impairment	5,757	-
Write downs	(92,993)	(14,769)
Balance at the end of the period	**932,517**	**1,356,262**

19. Investment property

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

	Investment property
Cost	
At 1 January 2016	112,618
Additions	25,014
Disposals	(28,126)
At 31 December 2016	109,506
Additions	38,251
Disposals	(38,644)
At 31 December 2017	**109,113**
Accumulated depreciation	
At 1 January 2016	(6,416)
Charge for the year	(2,921)
Disposals	810
At 31 December 2016	(8,527)
Charge for the year	(2,700)
Disposals	344
Impairment	(6,173)
At 31 December 2017	**(17,056)**
Net book value	
At 31 December 2016	**100,979**
At 31 December 2017	**92,057**

20. Property and equipment

	Land and buildings	Computers and electronic equipments	Vehicles	Furniture and equipment	Leasehold improvements	Assets under construction	Total
Cost							
At 1 January 2016	1,045,484	743,872	69,108	428,486	176,135	31,112	2,494,197
Additions	-	75,996	6,629	10,352	6,591	53,329	152,897
Disposals	-	(76,401)	(15,441)	(33,150)	(47,266)	(1,734)	(173,992)
Transfer	3,634	61,190	-	2,525	-	(69,953)	(2,604)
At 31 December 2016	1,049,118	804,657	60,296	408,213	135,460	12,754	2,470,498
Additions	-	3,763	-	935	2,421	26,003	33,122
Disposals	(13,616)	(53,167)	(15,309)	(35,811)	(68,087)	(2,342)	(188,332)
Transfer	-	18,778	6,298	2,743	-	(29,172)	(1,353)
At 31 December 2017	**1,035,502**	**774,031**	**51,285**	**376,080**	**69,794**	**7,243**	**2,313,935**
Accumulated depreciation							
At 1 January 2016	(136,997)	(647,187)	(49,338)	(301,578)	(92,341)	-	(1,227,441)
Charge for the year	(22,223)	(50,412)	(9,166)	(33,955)	(34,953)	-	(150,709)
Disposals	-	75,050	15,441	30,187	47,266	-	167,944
At 31 December 2016	(159,220)	(622,549)	(43,063)	(305,346)	(80,028)	-	(1,210,206)
Charge for the year	(21,669)	(56,381)	(7,471)	(29,296)	(34,582)	-	(149,399)
Disposals	1,446	50,405	15,309	32,361	68,087	-	167,608
At 31 December 2017	**(179,443)**	**(628,525)**	**(35,225)**	**(302,281)**	**(46,523)**	**-**	**(1,191,997)**
Net carrying amount							
At 31 December 2016	889,898	182,108	17,233	102,867	55,432	12,754	1,260,292
At 31 December 2017	**856,059**	**145,507**	**16,060**	**73,799**	**23,271**	**7,243**	**1,121,939**

21. Intangible assets

	Software acquired
Cost	
At 1 January 2016	402,459
Additions	3,446
Transfer	2,603
At 31 December 2016	408,508
Additions	-
Disposal	(66,966)
Transfer	1,353
At 31 December 2017	**342,895**
Accumulated amortization	
At 1 January 2016	(241,479)
Charge for the year	(33,664)
At 31 December 2016	(275,143)
Charge for the year	(31,690)
Disposal	65,539
At 31 December 2017	**(241,294)**
Net book value	
At 31 December 2016	133,365
At 31 December 2017	**101,601**

22. Due to banks

	2017	2016
Borrowings from resident banks	530,374	-
Borrowings from non-resident banks	2,329,441	128,214
Current accounts from resident banks	19,591	13,012
Total	**2,879,406**	**141,226**

Borrowings from resident banks have maturities as at December 31, 2017 up to 91 days and interest rates of 1.27%, 1.28% and 1.80% for balances denominated in ALL. Borrowings from non-resident banks have maturities as at December 31, 2017 up to 194 days (2016: up to 32 days) and interest rates of 0.60% and 0.68% for balances denominated in EUR (2016: 1.249% p.a for USD).

23. Due to customers

	2017	2016
Current accounts		
Foreign currency	4,871,324	5,501,122
Local currency	3,310,881	3,922,812
Savings accounts		
Foreign currency	2,110,240	3,003,488
Local currency	1,396,418	2,050,902
Term deposits		
Foreign currency	2,935,657	2,183,022
Local currency	8,704,387	9,866,880
Other customer account		
Foreign currency	425,361	367,825
Local currency	186,402	275,854
Accrued interest	105,575	130,223
Total	**24,046,245**	**27,302,128**

Savings accounts in Lek (FlexSave) bear interest at 0.8% p.a (2016: 0.5%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2016: 0.05%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2016: 0.1%).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 2017 and 31 December 2016, were as follows:

(in %)	3-6 months	12 months	15-60 months
ALL	0.00 - 0.80	0.82 - 1.45	0.00 - 2.94
USD	0.00 - 0.66	0.70 - 1.43	0.00 - 1.40
EUR	0.00 - 0.27	0.05 - 0.57	0.00 - 0.56

(in %)	3-6 months	12 months	15-60 months
ALL	0.54 - 1.24	0.81 - 1.74	1.22 - 3.07
USD	0.50 - 0.55	0.70 - 0.90	0.75 - 0.80
EUR	0.05 - 0.09	0.05 - 0.14	0.10 - 0.10

24. Subordinated debt

	2017	2016
Subordinated Debt		
ProCredit Holding	664,750	676,150
Accrued interest	21,155	21,725
Total	**685,905**	**697,875**

On 3 July 2014, the Bank received from ProCredit Holding AG & Co. KGaA a subordinated debt of EUR 5 million, bearing a variable interest rate and maturing on 3 July 2024. The interest is payable on a semi-annual bases and the principal is payable on maturity date.

25. Other liabilities

	2017	2016
Payments in transit	176,320	90,584
Sundry creditors	155,012	118,003
Accrued expenses	15,264	11,568
Deferred fee income	1,343	610
Other financial liabilities	**347,939**	**220,765**
Tax and social charges	16,653	14,878
Other provisions	38,064	20,104
Total	**402,656**	**255,747**

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 2017 and 2016 is presented below:

	Off-balance sheet items	Legal cases	Leaving employees	Total
Balance as at 1 January 2016	6,327	23,744	-	30,071
Provisions made during the year	3,299	1,755	-	5,054
Provisions reversed during the year	(4,464)	(10,557)	-	(15,021)
Balance as at 31 December 2016	**5,162**	**14,942**	**-**	**20,104**
Provisions made during the year	3,744	3,232	16,205	23,181
Provisions reversed during the year	(3,606)	(1,615)	-	(5,221)
Balance as at 31 December 2017	**5,300**	**16,559**	**16,205**	**38,064**

26. Share capital and legal reserves

At 31 December 2017 and 2016, the authorised and issued share capital of the Bank was comprised of 347,750 shares with a total value of EUR 25,698,725 (equivalent of ALL 3,387,148 thousand). 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.

Legal reserves

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

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, until the investment is derecognised, or impaired. The movements in the fair value reserve are presented in note 16.

27. Commitments and contingencies

	2017	2016
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	2,426,117	2,092,346
International guarantees	386,502	215,643
Local guarantees	358,615	295,717
Letters of credit	164,950	-
Less: Provisions recognised as liabilities	(5,299)	(5,161)
Total	**3,330,885**	**2,598,545**
Credit commitments		
Unused credit card facilities	88,708	138,788
Unused overdraft limits	1,094,220	1,030,423
Non-disbursed loans tranches	58,607	63,693
Unused portion of credit lines	1,184,582	859,443
Total	**2,426,117**	**2,092,347**

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 2017 will be incurred and thus no provision for losses has been included in these financial statements.

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 2017 and 2016 is remote, except the cases the provision was recorded as shown in note 10.

Lease commitments

The Bank leases premises to perform its operations.

In general, the operating lease contracts are cancellable upon a 90 days period notification. The maximum non-cancellable lease commitments payable not later than 1 year approximate ALL 12,218 thousand (2016: ALL 22,581 thousand). Rent expenses charged during the years 2017 and 2016, are presented in Note 10.

28. Related party transactions

The Bank's related parties include the parent company 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 2017, were ALL 55,336 thousand (2016: ALL 42,792 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 companyand affiliated entities under common control at 31 December 2017 and 2016 are presented below:

2017	ProCredit Holding	PCB Germany	PCB Kosovo	Quipu	ProCredit Academy	Other ProCredit	Total
Assets							
Cash and loans to financial institutions	-	3,428,376	11,656	-	-	-	**3,440,032**
Other Assets	718	-	5,840	19,094	-	-	**25,652**
Liabilities							
Other Liabilities	2,015,217	2,329,441	1,482	5,893	-	-	**4,352,033**
Profit or loss transactions							
Income	-	4,332	2,074	-	-	-	**6,406**
Expense	106,998	20,684	11,288	152,041	35,775	1,942	**328,728**

2016	ProCredit Holding	PCB Germany	PCB Kosovo	Quipu	ProCredit Academy	Total
Assets						
Cash and loans to financial institutions	-	2,835,208	23,753	-	-	**2,858,961**
Other Assets	1,044	-	7,322	-	-	**8,366**
Liabilities						
Other Liabilities	696,789	128,214	2,734	-	-	**827,737**
Profit or loss transactions						
Income	-	2,290	-	-	-	**2,290**
Expense	95,379	12,359	-	177,311	35,994	**321,043**

29. Events after the reporting date

Assembly of Shareholders of the Bank, represented by the Sole Shareholder in compliance with the By-laws of ProCredit Bank sh.a on March 7, 2018, has approved the change of equity denomination of ProCredit Bank sh.a from EURO to ALL. The actual Bank's subscribed and paid-in share capital amounts to 25,698,725 EUR. Upon to this approval for the change of equity denomination from EUR to ALL, the Bank's subscribed and paid-in share capital will be amounted to ALL 3,387,147,739. The first tranche of EUR 6,000,000 is converted on March 9, 2018, impacting positively the profit from capital conversation by EUR 19 thousand.

There were no other events after the reporting date that would require either adjustments or additional disclosures in these financial statements.

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As at 31 December 2017