ProCredit Bank

Albania

Annual Report 2016

Key Figures

	EUR '000		ALL '000		Change
	2016	2015	2016	2015	ALL
Balance Sheet Data					
Total Assets	245,756	254,714	33,233,585	34,967,025	-4.96%
Gross Loan Portfolio	158,157	175,706	21,387,633	24,120,982	-11.33%
Business Clients Loan Portfolio	130,555	133,394	17,654,956	18,312,316	-3.59%
Private Clients Loan Portfolio	27,602	42,312	3,732,677	5,808,666	-35.74%
Loan Loss Provision	-11,042	-12,328	-1,493,182	-1,692,328	-11.77%
Net Loan Portfolio	147,116	163,379	19,894,451	22,428,654	-11.30%
Customer Deposits	201,894	207,900	27,302,128	28,540,449	-4.34%
Liabilities to Banks and Financial Institutions (excluding PCH)	1,044	2,873	141,226	394,388	-64.2%
Total Equity	35,766	36,472	4,836,609	5,006,873	-3.40%
Income Statement					
Operating Income	11,967	13,120	1,643,939	1,833,554	-10.34%
Operating Expenses	11,753	11,638	1,614,485	1,626,472	-0.74%
Operating Profit Before Tax	214	1,482	29,454	207,082	-85.78%
Net Profit	64	1,122	8,756	156,858	-94.42%
Key Ratios					
Cost/Income Ratio	94.73%	74.32%			
Return on Equity (ROE)	0.18%	3.18%			
Capital Ratio	16.19%	15.57%			
Operational Statistics					
Number of Clients	70,576	85,936			-17.87%
of which Business Clients	10,475	15,018			-30.25%
Number of Loans Outstanding	9,617	14,291			-32.71%
Number of Deposit Accounts	113,236	131,619			-13.97%
Number of Staff	237	277			-14.44%
Number of Branches and Outlets	18	22			-18.18%

Exchange rate as of December 31:
2016: EUR 1 = ALL 135.23
2015: EUR 1 = ALL 137.28

Average exchange rate for the period:
2016: EUR 1 = ALL 137.37
2015: EUR 1 = ALL 139.75

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 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 substantial resources in financial education we aim to promote a culture of savings and 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 2016:

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

Board of Directors during 2016:

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

** Member of the Management Board until November 2016.*

Comprehensive Statement

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.

The three 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 26’822’857. 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.

Financial Statements

For the year ended 31 December 2013.
Prepared in accordance with International Financial Reporting Standards.

KPMG

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of ProCredit Bank Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with Institute of Authorized Chartered Auditors of Albania Code of Ethics (IEKA Code), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and IEKA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report prepared by management in accordance with Article 53 of the Law. No. 9662, dated 18 December 2006 "On banks in the Republic of Albania", amended, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

Herls Jani
Statutory Auditor

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Twin Towers Building I, floor 13
Tirana, Albania

Tirana, 29 March 2017

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December

		In ALL '000		*In EUR '000*	
Assets	**Notes**	**2016**	**2015**	**2016**	**2015**
Cash and balances with Central Bank	13	5,839,408	5,577,941	43,181	40,632
Loans and advances to financial institutions	14	1,238,954	1,396,303	9,162	10,171
Loans and advances to customers	15	19,894,451	22,428,654	147,116	163,379
Financial instruments available-for-sale	16	2,870,306	2,385,973	21,225	17,380
Property and equipment	17	1,260,292	1,266,756	9,320	9,228
Intangible assets	18	133,365	160,980	986	1,173
Repossessed property	19	1,356,262	980,419	10,029	7,142
Investment Property	20	100,979	106,202	747	774
Deferred tax assets	12	17,358	20,055	128	146
Prepaid corporate income tax	21	42,561	57,281	315	417
Other assets	22	479,649	586,461	3,547	4,272
Total assets		**33,233,585**	**34,967,025**	**245,756**	**254,714**
Liabilities					
Due to banks	23	141,226	394,388	1,044	2,873
Due to customers	24	27,302,128	28,540,449	201,894	207,900
Subordinated debt	25	697,875	712,116	5,161	5,187
Other liabilities	26	255,747	313,199	1,891	2,282
Total liabilities		**28,396,976**	**29,960,152**	**209,990**	**218,242**
Shareholders' equity					
Share capital	27	3,387,148	3,387,148	25,047	24,673
Legal reserves	27	707,672	699,829	5,233	5,098
Translation reserve		-	-	(101)	(204)
Retained earnings		757,962	917,477	5,707	6,887
Fair value reserve		(16,173)	2,419	(120)	18
Total shareholders' equity		**4,836,609**	**5,006,873**	**35,766**	**36,472**
Total liabilities and shareholders' equity		**33,233,585**	**34,967,025**	**245,756**	**254,714**

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 36 .

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

These financial statements have been approved by Executive Board on 29 March 2017 and signed on their behalf by:

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Ardiola Hrištiç
Member of the Management Board

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Elvira Tartari
Finance Department Manager

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

		In ALL '000		*In EUR '000*	
	Notes	**2016**	**2015**	**2016**	**2015**
Interest income	7	1,631,815	2,181,453	11,879	15,610
Interest expense	7	(252,134)	(409,155)	(1,835)	(2,928)
Net interest income		**1,379,681**	**1,772,298**	**10,044**	**12,682**
Fee and commission income	8	313,388	356,641	2,281	2,552
Fee and commission expense	8	(115,539)	(104,308)	(841)	(746)
Net fee and commission income		**197,849**	**252,333**	**1,440**	**1,806**
Other operating income, net	9	132,205	181,178	890	1,296
Net foreign exchanges losses		(5,352)	(17,214)	(39)	(123)
Impairment charge for credit losses	15	(60,444)	(355,041)	(440)	(2,541)
Personnel expense	11	(453,845)	(519,222)	(3,304)	(3,715)
Other operating expenses	10	(1,160,640)	(1,107,250)	(8,376)	(7,923)
Profit before income tax		**29,454**	**207,082**	**215**	**1,482**
Income tax expense	12	(20,698)	(50,224)	(151)	(360)
Profit for the year		**8,756**	**156,858**	**64**	**1,122**
Other comprehensive (loss)/income for the year:					
Fair value reserve (available-for-sale financial assets)	16	(21,873)	7,661	(162)	55
Deferred tax on the fair value reserve	12	3,281	(1,149)	24	(8)
		(18,592)	**6,512**	**(138)**	**47**
Total comprehensive (loss)/income for the year		**(9,836)**	**163,370**	**(74)**	**1,169**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 36.

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Statement of Changes in Equity

For the year ended 31 December

In ALL '000	Share Capital	Statutory Reserve	Revaluation Reserve/(Deficit)	Retained Earnings	Total
Balance at 1 January 2015	**3,387,148**	**590,681**	**(4,093)**	**869,767**	**4,843,503**
Transactions with owners recorded directly in equity					
Total transactions with owners recorded directly in equity	**–**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the year					
Fair value reserve (available-for-sale financial assets)	–	–	7,661	–	7,661
Deferred tax on the fair value reserve changes	–	–	(1,149)	–	(1,149)
Total other comprehensive loss for the year	–	–	6,512	–	6,512
Profit for the year	–	–	–	156,858	156,858
Total comprehensive income for the year	**–**	**–**	**6,512**	**156,858**	**163,370**
	–	109,148	–	(109,148)	–
Balance at 31 December 2015	**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					
Fair value reserve (available-for-sale financial assets)	–	–	(21,873)	–	(21,873)
Deferred tax on the fair value reserve changes	–	–	3,281	–	3,281
Total other comprehensive loss for the year	–	–	(18,592)	–	(18,592)
Profit for the year	–	–	–	8,756	8,756
Total comprehensive income for the year	**–**	**–**	**(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**

In EUR '000	Share Capital	Legal Reserves	Translation Reserve	Revaluation Reserve	Retained Earning	Total
Balance at 1 January 2015	**24,170**	**4,215**	**(353)**	**(29)**	**6,560**	**34,563**
Transactions with owners recorded directly in equity						
Total transactions with owners recorded directly in equity	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income(loss) for the year						
Fair value reserve (available-for-sale financial assets)	–	–	–	55	–	55
Deferred tax on the fair value reserve changes	–	–	–	(8)	–	(8)
Total other comprehensive loss for the year	–	–	–	47	–	47
Profit for the year	–	–	–	–	1,122	1,122
Translation differences	503	88	149	–	–	740
Total comprehensive loss for the year	**503**	**88**	**149**	**47**	**1,122**	**1,909**
Appropriation of retained earnings	–	795	–	–	(795)	–
Balance at 31 December 2015	**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						
Fair value reserve (available-for-sale financial assets)	–	–	–	(162)	–	(162)
Deferred tax on the fair value reserve changes	–	–	–	24	–	24
Total other comprehensive loss for the year	–	–	–	(138)	–	(138)
Profit for the year	–	–	–	–	64	64
Translation differences	374	77	103	–	–	554
Total comprehensive loss for the year	**374**	**77**	**103**	**(138)**	**64**	**480**
Appropriation of retained earnings	–	58	–	–	(58)	–
Balance at 31 December 2015	**25,047**	**5,233**	**(101)**	**(120)**	**5,707**	**35,766**

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 6 to 36.

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

Statement of Cash Flows

For the year ended 31 December

	Notes	In ALL '000 2016	In ALL '000 2015	In EUR '000 2016	In EUR '000 2015
Cash flows from operating activities					
Profit before income tax		29,454	207,082	215	1,482
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property and equipment and investment property	17,20	153,630	136,653	1,136	996
Amortization of intangible assets	18	33,664	34,642	249	252
Impairment charge for credit losses	15	60,444	355,041	447	2,586
Interest income	7	(1,631,815)	(2,181,453)	(12,067)	(15,891)
Interest expense	7	252,134	409,155	1,864	2,980
Loss/gain on disposal of assets		(4,683)	8,764	(35)	64
Charge of other provisions		4,801	15,969	36	116
		(1,102,371)	**(1,014,147)**	**(8,155)**	**(7,415)**
Changes in operating assets and liabilities:					
Compulsory reserve		30,860	195,273	228	1,422
Loans and advances to banks and other financial institutions		831,488	(292,830)	6,149	(2,133)
Loans and advances to customers		2,428,400	(1,136,552)	17,958	(8,279)
Other assets		106,810	54,628	790	398
Repossessed property		(390,612)	(111,696)	(2,888)	(814)
Due to banks		(253,182)	(327,090)	(1,872)	(2,383)
Due to customers		(1,197,921)	(1,120,253)	(8,858)	(8,160)
Other liabilities		(44,787)	75,837	(333)	552
		408,685	**(3,676,830)**	**3,019**	**(26,812)**
Interest received		1,707,935	2,249,812	12,630	16,388
Interes paid		(296,505)	(469,827)	(2,193)	(3,422)
Income tax paid		(5,978)	(23,313)	(44)	(171)
Net cash used in operating activities		**1,814,137**	**(1,920,158)**	**13,412**	**(14,017)**
Cash flows from investing activities					
Purchase of financial assets available-for-sale	16	(2,731,996)	(2,267,766)	(20,203)	(16,519)
Proceeds from matured financial assets available for-sale	16	2,200,145	3,169,912	16,270	23,091
Proceeds from sale of property and equipment		38,047	23,645	281	172
Purchases of intangible assets	18	(6,049)	(3,067)	(45)	(22)
Purchases of property and equipment		(175,309)	(224,883)	(1,296)	(1,638)
Net cash from investing activities		**(675,162)**	**697,841**	**(4,993)**	**5,084**
Cash flows from financing activities					
Decrease in subordinated debt		(10,250)	(571,915)	(76)	(4,166)
Dividend paid		(160,428)	–	(1,186)	–
Net cash used in financing activities		**(170,678)**	**(571,915)**	**(1,262)**	**(4,166)**
Translation differences		–	–	358	714
Decrease in cash and cash equivalents		**968,297**	**(1,794,232)**	**7,515**	**(12,385)**
Cash and cash equivalents at the beginning of the year		**2,975,628**	**4,796,860**	**21,650**	**34,035**
Cash and cash equivalents at end of the year	13	**3,943,925**	**2,975,628**	**29,165**	**21,650**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 36.

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

Notes to the Financial Statements

For the year ended 31 December 2016

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

1. Introduction

ProCredit Bank Sh.a (the "Bank"), originally known as FEFAD Bank Sh.a., was incorporated in February 1999 and in March of that year, was licensed to operate as a bank in all fields of retail banking activity in Albania in accordance with Law No. 8365, "On Banks in the Republic of Albania", dated 2 July 1998, subsequently replaced by Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is also subject to Law No. 8269, dated December 1997, "On the Bank of Albania". The official address of the Bank is "Rr. Dritan Hoxha, P.O. Box 2395".

As at 31 December 2016 and 2015, the shareholder of the Bank is ProCredit Holding AG & Co. KGaA holding 100% of the shares.

As at 31 December 2016 the Bank was operating from a head office in Tirana with 3 branches, 15 service points 20 Self Service areas (24/7 Zones) located in Tirana, Durrës, Fier, Elbasan, Korçë, Shkodër, Lezhë, Lushnja, Pogradec, Berat, and Vlorë.

2. Basis of accounting

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and its predecessor body. In addition, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body have been applied.

Details of the Bank's accounting policies, are included in Note 3.

b) Basis of measurement

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

c) Functional and presentation currency

The financial statements are presented in Albanian Lek ("ALL"), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

EUR equivalent figures

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 2016 have been translated at the official rate of the Bank of Albania as at 31 December 2016 of ALL 135.23 to EUR 1 (2015: 137.28). The statement of changes in equity has not been translated at the historical exchange rate as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. The share capital at historical exchange rate is EUR 25,699 thousand (see Note 27) and is not significantly different from the amount of EUR 25,047 thousand, as presented in the statement of financial position. The statement of comprehensive income and statement of cash flows have been translated with the average exchange rate for 2016 of 137.37 to EUR 1 (2015: 139.75).

d) Use of judgments 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 notes 4, 5 and 6.

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Interest income and expense

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.

(b) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see (a)).

Other fees and commission income including account servicing fees, sales commission, placement fees 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.

(c) 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.

(d) 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.

(e) 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) Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(f) Financial assets and financial liabilities

(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 (g), (h), and (i).

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 (l) and (o).

(iii) Derecognition

Financial assets

The Bank derecognises 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 derecognised) 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 recognised in OCI is recognised 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.

Financial liabilities

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

(iv) Offsetting financial instruments

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

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

(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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.
The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(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. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. Collective assessment is established for banks of homogeneous loans that are not considered individually significant; and banks of assets that are individually significant but that were not found to be individually impaired. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The bank does not recognise losses from expected future events.

Individually assessed loans and advances

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. Credit exposures are considered individually significant if they have a certain size. All credit exposures over EUR / USD 30,000 are individually assessed to determine
whether any sign of impairment exists that could lead to an impairment loss, i.e. any factor which might influence the customer's ability to fulfil its contractual obligations towards the Bank. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

• delinquencies in contractual payments of interest or principal, in particular those over 30 days in arrears;
• breach of contractual covenants or conditions;
• initiation of bankruptcy proceedings or financial reorganisation;
• initiation of court procedures by the Bank;
• all or part of the off-balance sheet exposure of a client shows signs of impairment;
• any specific information on the customer's business that is expected to have a negative impact on the future cash flows; and
• changes in the customer's market environment that are expected to have a negative impact on the future cash flows.

When determining the allowance for impairment, the aggregate exposure to the customer and the expected amounts from collateral held are taken into account.
If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a credit exposure has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flow of a collateralised financial asset reflects the cash flow that may result from foreclosure of collateral, less costs of obtaining and selling the collateral.

Collectively assessed loans and advances

For the purpose of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days in arrears. Arrears of more than 30 days are considered to be an indicator of impairment.
The collective assessment of impairment for individually insignificant credit exposures (allowance for individually insignificant impaired loans) and for unimpaired credit exposures (allowance for collectively assessed loans) is based on a quantitative analysis of default rates for loan portfolios with similar risk characteristics (migration analysis). After a qualitative analysis of this statistical data, ProCredit Holding management determines the appropriate rates which should be used as the basis for the portfolio-based impairment allowances. These rates are subject to back-testing on an annual basis.
Future cash flows for a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.
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. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in profit or loss.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance 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. Subsequent recoveries of amounts previously written off are recognised in profit or loss as part of the allowance for impairment losses on loans and advances.

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.

Assets acquired in exchange for loans (repossessed property)

Repossessed properties comprise non-financial repossessed assets acquired through enforcement of security over non-performing loans and advances to customers that do not earn rental, and are not used by the Bank and are intended for disposal in a reasonably short period of time, without significant restructuring.
Repossessed assets are included in other assets and are measured at the lower of cost and net realizable value and any write-down is recognized in the profit or loss, together with any realised gains or losses on disposal.

Impairment of available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. 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 the profit or loss.

(g) Cash and cash equivalents

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.

(h) Loans 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.

(i) Available-for-sale financial assets

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.

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.

(g) Property and equipment and investment property

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. Impairment losses are recognised in the profit or loss.

Land and assets under construction are not depreciated. Depreciation of assets is charged on a straightline 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

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.

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.

(h) 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 bemeasured 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.

(i) 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 a set 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) New standards, amendments and interpretations not yet adopted.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

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 effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Clarifications to IFRS 15" will have a minor impact on the financial statements. Both are effective for annual periods beginning on or after 1 January 2018.

IFRS 16 Leases

IFRS 16 is effective for the periods beginning on or after 1 January 2019, with early adoption permitted, but only if the entity also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). 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. Applying that model, a lessee is 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.

IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of leases. The overall impact of the standard is currently being assessed.

The following new or amended standards are expected to have a minor impact on the Bank's financial statements:

Effective for annual reporting periods beginning on or after 1 January 2017

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual reporting periods beginning on or after 1 January 2018

- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property

The following standards, amendments or interpretations were issued by the IASB but will not have an impact on the bank's financial statements:

- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture".

4. Critical accounting judgments and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent years is set out below in relation to the impairment of financial instruments and in Note 6 – determination of fair value of financial instruments.

(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) Impairment of available for-sale investments

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iii) Value of repossessed assets

The Bank has established a policy with respect to the fair values of repossessed assets which are being measured at the lower of cost and net realizable value. The fair value measurement includes the use of external, independent property valuators, having appropriate recognized statutory professional qualifications, which is subsequently reviewed by the Bank Management for significant unobservable inputs and any required write down adjustments. The fair value of repossessed assets is classified in terms of fair value hierarchy in Level 3, since the Bank has made use of research inputs, assumptions and inputs relating to properties of relevant characteristics and therefore encompass a range of non-observable market inputs. The fair value of assets presented as investment property, approximates their carrying amount at 31 December 2016.

5. Financial risk management

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

Other financial assets

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out primarily by the Risk Management Department and Credit Risk Department that works under the risk management policies approved by the Board of Directors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The Bank is subject to credit risk through its lending activities and in cases where it issues letters of credit and guarantees in favour of its customers. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

(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.

(i) Analysis of credit quality

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 2016 and 2015, 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:

	2016	**2015**
Cash and balances with Central Bank	5,839,408	5,577,941
Loans and advances to banks and other financial institutions	1,238,954	1,396,303
Loans and advances to customers:		
Business	16,913,571	18,253,929
Agricultural	1,765,996	2,707,308
Housing	899,072	1,006,368
Consumer	206,574	308,726
Other	109,238	152,323
	19,894,451	**22,428,654**
Financial instruments available-for-sale	2,870,306	2,385,973
Other financial assets	326,340	467,161
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	2,092,347	2,381,333
Financial guarantees	511,360	737,934
Total	**32,773,166**	**35,375,299**

We define 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' clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of overindebting our clients
- building a personal and long-term relationship with the client and maintaining regular contact
- close monitoring of loan repayments and early warning indicators
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- rigorous application of the "dual control principle".

The 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.

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

	2016		**2015**	
	Loans and advances	**Impairment allowance**	**Loans and advances**	**Impairment allowance**
Specific Impairment	1,615,638	(402,776)	2,282,626	(534,014)
Arrears 0-7 days	16,464,630	(344,886)	19,626,127	(392,629)
Arrears 8-30 days	2,446,421	(66,658)	1,305,336	(40,875)
Arrears 31-90 days	97,325	(29,679)	103,760	(38,814)
Arrears 91-180 days	94,440	(58,913)	113,327	(68,315)
Above 180 days	669,179	(590,270)	689,806	(617,681)
	21,387,633	**(1,493,182)**	**24,120,982**	**(1,692,328)**

Loans and advances impairment categories at 31 December 2016 and 2015 are presented as follows:

	2016		**2015**	
	Loans to customers	**Loans to banks**	**Loans to customers**	**Loans to banks**
Neither past due nor impaired	16,144,002	1,238,954	19,228,256	1,396,303
Past due but not impaired	3,627,993	-	2,610,100	-
Individually impaired	1,615,638	-	2,282,626	-
Gross	21,387,633	1,238,954	24,120,982	1,396,303
Less: allowance for impairment	(1,493,182)	-	(1,692,328)	-
Net	**19,894,451**	**1,238,954**	**22,428,654**	**1,396,303**

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 (2015: 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.

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.

Standart loans	Business	Agricultural	Housing	Consumer	Other	Total
2016	13,692,804	1,385,959	799,987	184,853	100,399	**16,144,002**
2015	15,530,878	2,400,084	878,967	273,931	144,396	**19,228,256**

Standard category relates to loans 'neither past due nor impaired' for which no evidence of impairment is identified. At 31 December 2016 and 2015 there are no loans specifically reviewed for impairment.

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.

Below it is presented an analysis of loans and advances to customers by industry and credit quality:

2016	Business	Agricultural	Housing	Consumer	Other	Total
Neither past due nor impaired	13,692,804	1,385,959	779,987	184,853	100,399	16,144,002
Past due but not impaired	2,921,102	434,238	169,683	85,958	17,012	3,627,993
Individually impaired	1,429,441	158,464	26,136	-	1,598	1,615,639
	18,043,347	**1,978,661**	**975,806**	**270,811**	**119,009**	**21,387,634**
Less: allowance for impairment	(1,129,775)	(212,665)	(76,735)	(64,237)	(9,771)	(1,493,183)
Net	**16,913,572**	**1,765,996**	**899,071**	**206,574**	**109,238**	**19,894,451**

2015	Business	Agricultural	Housing	Consumer	Other	Total
Neither past due nor impaired	15,530,878	2,400,084	878,967	273,931	144,396	19,228,256
Past due but not impaired	1,919,750	381,880	190,502	101,413	16,555	2,610,100
Individually impaired	2,054,495	188,901	39,226	-	4	2,282,626
	19,505,123	**2,970,865**	**1,108,695**	**375,344**	**160,955**	**24,120,982**
Less: allowance for impairment	(1,251,193)	(263,557)	(102,328)	(66,617)	(8,633)	(1,692,328)
Net	**18,253,930**	**2,707,308**	**1,006,367**	**308,727**	**152,322**	**22,428,654**

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.

31 December 2016	Business	Agricultural	Housing	Consumer	Other	Total
Individually impaired loans	1,429,441	158,464	26,136	-	1,597	1,615,638
Fair value of collateral	1,303,595	147,970	25,528	-	-	1,477,093

31 December 2015	Business	Agricultural	Housing	Consumer	Other	Total
Individually impaired loans	2,054,495	188,901	39,226	-	4	2,282,626
Fair value of collateral	1,995,242	187,753	36,009	-	-	2,219,004

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.

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.

	2016		2015	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business	490,802	38,813	908,757	93,475
Agricultural	131,715	6,795	88,647	9,820
Housing	1,955	138	16,865	1,532
Consumer	1,712	230	3,346	798
Total	**626,184**	**45,976**	**1,017,615**	**105,625**

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 9,284 thousand in 2016 (2015: ALL 87,393 thousand).

Due from banks

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	2016	2015
BBB	946,757	-
A	-	1,374,537
N/A	270,019	-
Total (see Note 14)	**1,216,776**	**1,374,537**

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	2016	2015
AAA-	-	138,379
AAA	136,472	-
B	-	2,247,594
B+	2,733,834	-
Total	**2,870,306**	**2,385,973**

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 aliability. The maximum credit exposure for lending commitments is the full amount of the commitment (see Note 28).

(ii) 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.

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

Collateral values grouped by the related exposures are set out below:

	2016		2015	
	Carrying value of the asset	**Fair value of the collateral**	**Carrying value of the asset**	**Fair value of the collateral**
Mortgages and other	18,080,010	16,185,275	20,488,066	20,781,969
Other collateral	1,636,589	563,474	1,683,678	523,386
Unsecured	177,852	-	256,910	-
Total	**19,894,451**	**16,748,749**	**22,428,654**	**21,305,355**

(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 2016 and 2015. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

2016	OECD countries	Albania	Total
Balances with the Central Bank	-	2,588,050	2,588,050
Loans and advances to financial institutions	968,935	270,019	1,238,954
Loans and advances to customers	-	19,894,451	19,894,451
Available-for-sale financial assets	136,472	2,733,834	2,870,306
Other financial assets	-	326,640	326,340

2015	OECD countries	Albania	Total
Balances with the Central Bank	-	2,645,337	2,645,337
Loans and advances to financial institutions	1,396,303	-	1,396,303
Loans and advances to customers	-	22,428,654	22,428,654
Available-for-sale financial assets	138,379	2,247,594	2,385,973
Other financial assets	-	467,162	467,162

Loans and advances to customers based on specific industry sectors at 31 December 2016 and 2015 are presented below:

	31 December			
Industry sector	**2016**	**%**	**2015**	**%**
Trade	8,615,994	43	9,382,983	42
Industry and other production	4,209,097	21	4,217,055	19
Construction	492,293	3	374,392	2
Transport	533,590	3	561,518	2
Services	484,154	2	7,285,420	32
Other	5,559,323	28	607,286	3
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):

	2016	2015
USD	128.17	125.79
EUR	135.23	137.28
GBP	157.56	186.59
CHF	126.05	126.74

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2016 and 2015, translated into ALL'000.

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**

31 December 2015	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	2,203,039	2,820,323	545,515	9,064	5,577,941
Loans and advances to banks	–	1,374,537	21,766	–	1,396,303
Financial instruments available for sale	2,247,594	138,379	–	–	2,385,973
Loans and advances to customers	12,379,990	8,835,611	1,213,053	–	22,428,654
Other financial assets	175,407	203,764	87,990	–	467,161
Total Financial Assets	**17,006,030**	**13,372,614**	**1,868,324**	**9,064**	**32,256,032**
Liabilities					
Due to banks	202,919	2,767	188,702	–	394,388
Due to customers	17,455,542	9,436,624	1,639,823	8,460	28,540,449
Other financial liabilities	68,346	176,149	19,974	228	264,697
Subordinated debt	–	712,116	–	–	712,116
Total Finacial Liabilities	**17,726,807**	**10,327,656**	**1,848,498**	**8,688**	**29,911,650**
Net on-balance sheet currency position	**(720,777)**	**3,044,958**	**19,824**	**376**	**2,344,382**
Off-balance sheet commitments and guarantees	**1,358,084**	**1,407,945**	**353,238**	**–**	**3,119,268**

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. Under standard scenario, the calculation of such impact based on 31 December 2016 data, shows for an effect of ALL 90,973 thousand (EUR 673 thousand) ((2015: ALL 91,215 thousand (EUR 665 thousand)).

(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 2016 and 2015, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

Estimated Profit (loss) effect:	2016		2015	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	141,660	70,830	82,637	41,319
Change EUR market rates	71,615	35,807	69,082	34,541
Change USD market rates	2,392	1,196	5,167	2,584
Total effect	215,667	107,833	156,886	78,444
As % of capital	4.00%	2.00%	2.92%	1.46%

Economic Value Impact:	2016		2015	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	81,126	40,563	4,084	2,042
Change EUR market rates	84,688	42,344	70,695	35,347
Change USD market rates	630	315	4,259	2,130
Total effect	166,444	83,222	79,038	39,519
As % of capital	3.09%	1.54%	1.47%	0.73%

The tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities with both fixed and floating interest rates.

31 December 2016	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	Over 1 year	Non–interest bearing	Total
Assets							
Cash and balances with Central Bank	2,571,013	–	–	–	–	3,268,395	5,839,408
Loans and advances to banks and other financial institutions	540,460	135,230	270,460	270,460	–	22,344	1,238,954
Financial instruments available for sale	435,230	689,570	700,000	800,000	271,300	(25,794)	2,870,306
Loans and advances to customers	2,991,981	2,028,976	3,629,129	6,079,957	6,600,464	(1,436,056)	19,894,451
Other financial assets	–	–	–	–	–	326,340	326,340
Total Financial Assets	**6,538,684**	**2,853,776**	**4,599,589**	**7,150,417**	**6,871,764**	**2,155,229**	**30,169,459**
Liabilities							
Due to banks	128,170	–	–	–	–	13,056	141,226
Due to customers	6,300,261	1,592,649	2,084,197	5,482,694	1,800,055	10,042,272	27,302,128
Other liabilities	–	–	–	–	–	220,092	220,092
Subordinated debt	676,150	–	–	–	–	21,725	697,875
Total Financial Liabilities	**7,104,581**	**1,592,649**	**2,084,197**	**5,482,694**	**1,800,055**	**10,297,145**	**28,361,321**
Interest sensitivity gap	**(565,897)**	**1,261,127**	**2,515,392**	**1,667,723**	**5,071,709**	**(8,141,916)**	**1,808,138**

31 December 2015	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	Over 1 year	Non–interest bearing	Total
Assets							
Cash and balances with Central Bank	2,601,873	–	–	–	–	2,976,068	5,577,941
Loans and advances to banks and other financial institutions	–	–	686,400	686,400	–	23,503	1,369,303
Financial instruments available for sale	157,280	1,381,300	470,610	389,510	–	(12,727)	2,385,973
Loans and advances to customers	2,758,796	2,524,970	4,670,224	7,491,976	6,588,866	(1,624,178)	22,428,654
Other financial assets	–	–	–	–	–	467,161	467,161
Total Financial Assets	**5,517,949**	**3,924,270**	**5,827,234**	**8,567,886**	**6,588,866**	**1,829,827**	**32,256,032**
Liabilities							
Due to banks	394,363	–	–	–	–	25	394,388
Due to customers	7,636,951	2,006,797	2,431,096	6,031,665	1,171,174	9,262,766	28,540,449
Other liabilities	–	–	–	–	–	264,697	264,697
Subordinated debt	–	–	–	–	686,400	25,716	712,116
Total Financial Liabilities	**8,031,314**	**2,006,797**	**2,431,096**	**6,031,665**	**1,857,574**	**9,553,204**	**29,911,650**
Interest sensitivity gap	**(2,513,365)**	**1,917,473**	**3,396,138**	**2,536,221**	**4,731,292**	**(7,723,377)**	**2,344,382**

(c) Liquidity risk

Liquidity risk is the risk that the Bank will no longer be able to meet
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's risk management department reviews all interest rate positions in all material currencies at least quarterly and before any transaction large enough to affect the Bank's interest rate risk. Both the Bank's ALCO and the Bank's Risk Management Committee have the authority to approve interest rate exposure modifications within the limits set in this policy. Higher limits are only possible in exceptional cases and are subject to approval by the Group ALCO or the Group Risk Management Committee.

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 2016	Up to 1 month	1 – 3 months	3 – 12 months	Over 1 year	Total
Liabilities					
Due to banks	141,226	–	–	–	141,226
Due to customers	16,196,515	1,577,748	7,522,800	2,005,065	27,302,128
Other liabilities	255,748	–	–	–	255,748
Subordinated debt	21,725	–	–	676,150	697,875
Total Liabilities	**16,615,214**	**1,577,748**	**7,522,748**	**2,681,215**	**28,396,977**
Total Assets	**9,850,399**	**1,191,924**	**5,868,169**	**14,721,802**	**31,632,294**
Contingent liabilities					
Financial guarantees	511,360	–	–	–	511,360
Recoverable credit commitments	2,092,347	–	–	–	2,092,347
Liquidity Gap	**(4,161,108)**	**(385,824)**	**(1,654,631)**	**12,040,587**	**5,839,024**
Cumulative Gap	**(4,161,108)**	**(4,546,932)**	**(6,201,563)**	**5,839,024**	**–**

31 December 2015	Up to 1 month	1 – 3 months	3 – 12 months	Over 1 year	Total
Liabilities					
Due to banks	394,388	–	–	–	394,388
Due to customers	16,777,857	2,036,150	8,531,548	1,194,894	28,540,449
Other liabilities	313,199	–	–	–	313,199
Subordinated debt	–	–	–	712,116	712,116
Total Liabilities	**17,485,444**	**2,036,150**	**8,531,548**	**1,907,010**	**29,960,152**
Total Assets	**6,437,942**	**2,932,343**	**7,389,544**	**9,858,956**	**26,618,785**
Contingent liabilities					
Financial guarantees	737,934	–	–	–	737,934
Recoverable credit commitments	2,381,333	–	–	–	2,381,333
Liquidity Gap	**(7,928,235)**	**896,193**	**(1,142,004)**	**7,951,946**	**(222,100)**
Cumulative Gap	**(7,928,235)**	**(7,032,042)**	**(8,174,046)**	**(222,100)**	**–**

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.

(d) 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.

(e) 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 as-

set (the 'Basel II ratio') at or above the internationally agreed 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.
The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2016 and 2015. During these two years, the Bank complied with all of the externally imposed capital requirements.

Tier 1 capital	2016	2015
Share capital	3,387,148	3,387,148
Statutory reserve	707,671	699,829
Translation exposure	88,091	140,773
Statutory accumulated losses (excluding the profit for the year)	63,891	(278,397)
Statutory intangible assets	(128,881)	(155,351)
Total qualifying Tier 1 capital	**4,117,920**	**3,794,002**
Tier 2 capital		
Subordinated liability	697,875	712,116
Other deductions	(163,581)	(224,309)
Total qualifiying Tier 2 capital	**534,294**	**487,807**
Total regulatory capital	**4,652,214**	**4,281,809**
Total risk-weighted assets	**28,728,065**	**27,505,856**
CAR ratio	**16.19%**	**15.57%**

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 2016, the Bank achieved an adequacy ratio well above the minimum required which as at 31 December 2016 is calculated at 18.90% (2015: 18.26%).

6. 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 recognised 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 2016				
Treasury bills	2,460,696	–	2,460,696	–
Bonds	409,395	–	409,395	–
Shares	215	–	215	–
Total	**2,870,306**	**–**	**2,870,306**	**–**
31 December 2015				
Treasury bills	2,247,595	–	2,247,595	–
Bonds	138,161	–	138,161	–
Shares	217	–	217	–
Total	**2,385,973**	**–**	**2,385,973**	**–**

(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.

2016	Carrying value	Fair value Level 2	Fair value Level 3
Financial assets			
Cash and balances with Central Bank	5,839,408	5,839,408	-
Loans and advances to customers	19,894,451	-	20,042,090
Loans and advances to banks and other financial institutions	1,238,954	1,238,954	-
Other financial assets	326,340	326,340	-
Financial liabilities			
Due to banks	141,226	141,226	-
Due to customers	27,302,129	15,066,592	12,472,829
Subordinated debt	697,875	-	697,875
Other financial liabilities	220,092	220,092	-

2015	Carrying value	Fair value Level 2	Fair value Level 3
Financial assets			
Cash and balances with Central Bank	5,577,941	5,577,941	-
Loans and advances to customers	22,428,654	-	22,577,526
Loans and advances to banks and other financial institutions	1,396,303	1,396,303	-
Other financial assets	467,161	467,161	-
Financial liabilities			
Due to banks	394,388	394,388	-
Due to customers	28,540,449	15,476,982	13,389,828
Subordinated debt	712,116	-	712,116
Other financial liabilities	264,697	264,697	-

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.

7. Net interest income

Interest income was earned on the following assets:

	2016	2015
Interest income		
Loans and advances to customers	1,560,330	2,059,548
Financial instruments available-for-sale	49,039	86,836
Loans and advances to financial institutions	22,446	35,069
Total interest income	**1,631,815**	**2,181,453**
Interest expense		
Due to customers	(201,430)	(284,834)
Interest expenses on subordinated debts	(45,223)	(119,206)
Other	(5,481)	(5,115)
Total interest expense	**(252,134)**	**(409,155)**
Net interest income	**1,379,681**	**1,772,298**

Included within interest income from loans and advances to customers for the year ended 31 December 2016 is a total of ALL 30,753 thousand (2015: ALL 48,806 thousand) relating to income from unwinding effect for impaired loans.

8. Net fee and commission income

Fees and commissions income were comprised as follows:

	2016	2015
Money transfer and cheques	75,487	105,027
Account maintenance fees	114,716	117,717
Card fees	87,986	90,098
Letters of credit and guaranties	1,539	766
Banking services fees	24,630	31,428
Other	9,030	11,605
Total fee and commission income	**313,388**	**356,641**
Transfer commission	(6,826)	(5,722)
Cards fees expense	(93,063)	(82,451)
Other	(15,650)	(16,135)
Total fee and commission expense	**(115,539)**	**(104,308)**
Net fee and commission income	**197,849**	**252,333**

9. Other operating income, net

	2016	2015
Repayment of loans previously written off	9,284	87,393
Gain on sale of fixed assets	22,617	8,251
Sale of properties acquired through legal process	1,170	577
Other	89,167	84,957
Total	**132,205**	**181,178**

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

10. Other operating expenses

	2016	2015
Depreciation of investment property property and equipment	153,630	136,653
Rent expense	102,607	114,354
Consultancy, legal fees and other services	112,587	101,582
IT, Maintenance and repairs	291,321	236,639
Telephone and electricity	84,857	90,097
Deposit insurance ASD	81,272	89,415
Advertising	16,888	26,601
Transportation and business trip expenses	57,799	74,576
Amortization of intangible assets	33,664	34,641
Security services	25,897	26,798
Training	34,013	23,957
Office supplies	18,164	12,376
Insurance	10,793	12,453
Write down of repossessed assets	14,769	11,414
Other expenses	122,379	115,694
Total	1,160,640	1,107,250

11. Personnel expenses

Personnel expenses were comprised as follows:

	2016	2015
Salaries	398,998	456,384
Social insurance	33,555	12,867
Defined state contribution plan	14,380	53,091
Other	6,912	5,854
Total	**453,845**	**519,222**

At 31 December 2016 the Bank had 258 employees (31 December 2015: 309 employees).

12. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2016 and 2015 is presented as it follows:

	2016	2015
Current tax	14,720	50,373
Deferred tax (benefit)/expense	5,978	(149)
Income tax expense	**20,698**	**50,224**

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% (2015: 15%).

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

	2016			2015		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Available for sale investment	(21,873)	3,281	(18,592)	7,661	(1,149)	6,512
Total	(21,873)	3,281	(18,592)	7,661	(1,149)	6,512

(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.

	Tax rate	2016	Tax rate	2015
Profit before taxes		29,454		207,082
Theoretical tax calculated at 15%	15%	4,418	15%	31,062
Non-deductible expenses	35%	10,302	9%	19,311
Other	20%	5,978	-	(149)
Income tax expense	**70%**	**20,698**	**24%**	**50,224**

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 15% (2015: 15%)

		Movements			Movements		
	2014	In profit or loss	In OCI	2015	In profit or loss	In OCI	2016
Deferred tax assets /(liabilities)							
Available-for-sale investments	723	-	(1,149)	(426)	-	3,281	2,855
Accelerated accounting depreciation	9,030	(3,146)	-	5,884	(2,044)	-	3,840
Impairment of repossessed property	8,197	1,463	-	9,660	1,616	-	11,276
Other provisions	3,105	1,832	-	4,937	(5,550)	-	(613)
Net deferred tax assets/(liabilities)	**21,055**	**149**	**(1,149)**	**20,055**	**(5,978)**	**3,281**	**17,358**

13. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2016	2015
Cash on hand	1,327,511	1,210,161
Current accounts with non-residents	1,923,847	1,722,443
Amounts held at Central Bank		
Current account	16,858	43,024
	3,268,216	2,975,628
Statutory reserve	2,571,192	2,602,313
Total	**5,839,408**	**5,577,941**

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 2016 and 2015 are presented below:

	2016	2015
Cash and cash equivalents	3,268,216	2,975,628
Loans and advances to financial institutions with maturities of three months or less (note 14)	675,709	-
Total	**3,943,925**	**2,975,628**

14. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2016	2015
Deposits with non-residents	1,216,776	1,374,537
Other accounts	22,178	21,766
Total	**1,238,954**	**1,396,303**

Loans and advances to financial institutions of ALL 675,709 (2015: nil) with maturities up to three months are included in cash and cash equivalents (see note 13). As at 31 December 2016 and 2015, all the deposits have contractual maturities of up to one year.

15. Loans and advances to customers

Loans and advances consisted of the following:

	2016	2015
Loans to customers	16,075,190	18,015,548
Overdrafts	5,137,839	5,867,419
Credit Cards	49,490	67,541
Accrued interest	125,114	170,474
	21,387,633	**24,120,982**
Allowance for impairment losses on loans and advances to customers	(1,493,182)	(1,692,328)
	19,894,451	**22,428,654**

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

	2016	2015
At 1 January	1,692,328	1,697,316
Impairment charge for the year	60,444	355,041
Loans written off	(212,946)	(298,606)
Translation effect	(46,644)	(61,423)
Total	**1,493,182**	**1,692,328**

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

	2016	2015
Loans in Lek	2% to 21%	2.5% to 24%
Loans in Euro	2% to 12.75%	3% to 15%
Loans in Usd	2% to 12.75%	2.5% to 14%

16. Financial instruments available-for-sale

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

	2016	2015
Treasury bills	2,460,696	2,247,595
Bonds	409,396	138,161
	2,870,092	**2,385,756**
Shares	214	217
Total	**2,870,306**	**2,385,973**

As at 31 December 2016, 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 Lek (with maturities in February and March 2018).The movement in investments securities is summarised as follows:

	2016	2015
At 1 January	2,385,756	3,301,694
Additions	2,731,996	2,267,766
Matured	(2,196,857)	(3,171,062)
Change in accrued interest	(28,930)	(20,303)
Gains from changes in fair value	(21,873)	7,661
Total	**2,870,092**	**2,385,756**

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

	2016	2015
At 1 January	2,419	(4,093)
Additions	-	9,639
Disposals (reclassified to profit or loss)	(21,873)	(1,978)
Net (disposals)/additions	(21,873)	7,661
Total	**(19,028)**	**2,845**
Deferred tax on the revaluation reserve of AFS instruments	3,281	(1,149)
Revaluation reserve for available -for-sale investments	**(16,173)**	**2,419**

Treasury bills

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

	2016			2015		
Issuer	Maturity	Yield	Carrying value	Maturity	Yield	Carrying value
Albanian Government	12 months	1.28% - 3.22%	2,460,696	12 months	2.26% - 3.59%	2,247,595
			2,460,696			**2,247,595**

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

17. Property and equipment

	Land and buildings	Computers and electronic equipment	Vehicles	Furniture and equipment	Leasehold improvements	Assets under construction	Total
Cost							
At 1 January 2015	1,024,824	746,171	70,009	447,624	174,074	28,269	2,490,971
Additions	-	24,841	5,012	24,915	41,424	81,709	177,901
Disposals	-	(46,299)	(12,633)	(54,578)	(45,775)	(15,390)	(170,675)
Transfer	20,660	19,159	6,720	10,525	6,412	(63,476)	-
At 31 December 2015	**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**
Accumulated depreciation							
At 1 January 2015	(115,118)	(646,897)	(55,361)	(304,486)	(113,164)	-	(1,235,026)
Charge for the year	(21,879)	(44,220)	(6,610)	(37,024)	(24,952)	-	(134,685)
Disposals	-	43,930	12,633	39,932	45,775	-	142,270
At 31 December 2015	(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)**
Net carrying amount							
At 31 December 2015	908,487	96,685	19,770	126,908	83,794	31,112	1,266,756
At 31 December 2016	**889,898**	**182,108**	**17,233**	**102,867**	**55,432**	**12,754**	**1,260,292**

18. Intangible assets

	Software acquired
Cost	
At 1 January 2015	399,391
Additions	3,068
At 31 December 2015	402,459
Additions	3,446
Transfer	2,603
At 31 December 2016	**408,508**
Accumulated amortization	
At January 2015	(206,837)
Charge for the year	(34,642)
At 31 December 2015	(241,479)
Charge for the year	(33,664)
At 31 December 2016	**(275,143)**
Net book value	
At 31 December 2015	160,980
At 31 December 2016	**133,365**

19. Repossessed properties

	2016	2015
Repossessed properties	1,356,262	980,419
	1,356,262	**980,419**

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

	2016	2015
Balance at the beginning of the period	980,419	880,138
Additions during period	430,780	258,640
Disposals during the period	(40,168)	(146,945)
Write downs	(14,769)	(11,414)
Balance at the end of the period	**1,356,262**	**980,419**

20. 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 2015	65,636
Additions	46,982
At 31 December 2015	112,618
Additions	25,014
Disposals	(28,126)
At 31 December 2016	**109,506**
Accumulated depreciation	
At 1 January 2015	(4,448)
Charge for the year	(1,968)
At 31 December 2015	(6,416)
Charge for the year	(2,921)
Disposals	810
At 31 December 2016	**(8,527)**
Net book value	
At 31 December 2015	**106,202**
At 31 December 2016	**100,979**

21. Prepaid corporate income tax

	2016	2015
As at 1 January	57,281	84,191
Income tax payments	-	23,463
Corporate income tax for the year	(14,720)	(50,373)
Total	**42,561**	**57,281**

22. Other assets

	2016	2015
Receivables from ATM transactions	41,274	23,074
Other debtors	285,066	320,500
Payments in transit	-	123,587
Other financial assets	**326,340**	**467,161**
Prepaid expenses	153,309	119,300
Total	**479,649**	**586,461**

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.

23. Due to banks

	2016	2015
Borrowings from resident banks	-	388,710
Borrowings from non-resident banks	128,214	-
Current accounts from resident bank	13,012	5,678
Total	**141,226**	**394,388**

Interest rates for borrowings from banks are set at 1.25% p.a for USD (2015: 1.5% p.a for ALL and 1.05% p.a for USD). Other accounts include escrow accounts.

24. Due to customers

	2016	2015
Current accounts		
Foreign currency	5,501,122	4,855,491
Local currency	3,922,812	3,950,358
Savings accounts		
Foreign currency	3,003,488	3,498,510
Local currency	2,050,902	2,655,923
Term Deposits		
Foreign currency	2,183,022	2,469,871
Local currency	9,866,880	10,400,871
Other customer account		
Foreign currency	367,825	252,831
Local currency	275,854	285,972
Accrued interest	130,223	170,622
Total	**27,302,128**	**28,540,449**

Savings accounts in ALL bear interest at 0.5% p.a (2015: 0.8%), while those in foreign currencies, including Euro and USD, bear interests of 0.05% p.a and 0.1% p.a for year 2016 and 2015. Other customer accounts include accounts pledged by customers as cash collateral. They bear interest rates at similar rates as the term deposits.
The interest rates applied for term deposits as of 31 December 2016 and 31 December 2015, were as follows:

(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

(in %)	3-6 months	12 months	15-60 months
ALL	1.21 - 1.59	1.74 - 2.10	2.20 - 4.04
USD	0.50 - 0.55	0.70 - 0.86	0.75 - 0.90
EUR	0.05 - 0.10	0.05 - 0.10	0.10 - 0.15

25. Subordinated debt

	2016	2015
Subordinated Debt		
ProCredit Holding	676,150	686,400
Accrued interest	21,725	25,716
Total	**697,875**	**712,116**

On 3 July 2014, the Bank received from ProCredit Holding AG & Co. KGaA subordinated debt of EUR 5 million, bearing a fixed interest of 6.552% and maturing on 3 July 2024. The interest is payable on a semi-annual bases and the principal is payable at maturity date.

26. Other liabilities

	2016	2015
Payments in transit	90,584	179,017
Sundry creditors	118,003	69,211
Accrued expenses	11,568	16,469
Deferred fee income	610	958
Other financial liabilities	**220,765**	**265,655**
Tax and social charges	14,878	17,473
Other provisions	20,104	30,071
Total	**255,747**	**313,199**

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 2015 and 2016 is presented below:

	Off-balance sheet items	Legal cases	Total
Balance as at 1 January 2015	4,047	21,469	25,516
Provisions made during the year	5,459	4,825	10,284
Provisions reversed during the year	(3,179)	(2,550)	(5,729)
Balance as at 31 December 2015	**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**

27. Share capital and statutory reserves

At 31 December 2016 and 2015, 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.

28. Commitments and contingencies

	2016	2015
Guarantees in favour of customers	511,360	737,934
Credit commitments in favour of customers	2,092,347	2,381,333
Blocked accounts	148,695	140,298
Total	**2,752,402**	**3,259,565**

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 2016 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 2016 and 2015 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 22,581 thousand (2015: ALL 24,645 thousand). Rent expenses charged during the years 2016 and 2015, are presented in Note 10.

29. 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 2016, were ALL 42,792 thousand (2015: ALL 42,509 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 shareholder and affiliated entities at 31 December 2016 and 2015 are presented below:

2016	ProCredit Holding AG & Co. KGaA AG	Other entities of ProCredit Group	Total
Assets			
Cash and loans to financial institutions	–	2,858,961	**2,858,961**
Other Assets	1,044	7,322	**8,366**
Liabilities			
Other Liabilities	696,789	130,948	**827,737**
Profit or loss transactions			
Income	–	2,290	**2,290**
Expense	95,379	225,664	**321,043**

2015	ProCredit Holding AG & Co. KGaA AG	Other entities of ProCredit Group	Total
Assets			
Cash and loans to financial institutions	–	2,807,518	**2,807,518**
Other Assets	563	9,599	**10,162**
Liabilities			
Other Liabilities	710,215	2,141	**712,356**
Profit or loss transactions			
Income	–	5,409	**5,409**
Expense	100,911	160,465	**261,376**

Other key management short-term benefits are presented below:

	2016	2015
Salaries	17,801	21,749
Bonuses	-	4,135
Total	**17,801**	**25,884**

30. Events after the reporting date

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

Contact Addresses

Head Office

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KIB: 20911005
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Korça Branch
Rruga "Midhi Kostani", Korçë

Shkodra Branch
Bulevardi "Zogu I", Nr. 7, Shkodër

Agencies and 24/7 Zones

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Rr. "Sami Frashëri", Tiranë

Medrese Agency, 24/7 Zone
Rr. "Ferit Xhajko"
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Njësia Bashkiake nr. 8, kodi Postar 1017, Tiranë

Piazza Agency, 24/7 Zone
Rr. "Ded Gjo Luli ", pranë Muzeut Kombëtar,
Tiranë

Rruga e Kavajës 24/7 Zone
Rruga e Kavajës, Tiranë

Kombinati Agency, 24/7 Zone
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Njësia Bashkiake Nr. 6 Kodi Postar 1027, Tiranë

Liceu Agency, 24/7 Zone
Rr. "Ismail Qemali" pranë Liceut Artistik

Durrësi 2 Agency, 24/7 Zone
Lagjja Nr. 7, Rr. "Aleksandër Goga" Durrës

Durrësi Porti Agency, 24/7 Zone
Lagjja 3, Rr. "Skënderbej"
Pranë Qendrës Monum (ose pranë Portit)

Shkozeti Agency, 24/7 Zone
Lagjja 14, Rr. "Tirana", Stacioni 1, Shkozet, Durrës

Berati Agency, 24/7 Zone
Bulevardi "Republika",
Lagjja "22 Tetori", Berat

Lushnja Agency, 24/7 Zone
Lagjja "Xhevdet Nepravishta"
Shëtitorja Kryesore, pranë Poliklinikës, Lushnje

Elbasani Agency, 24/7 Zone
Bulevardi "Qemal Stafa", Lagjja "Dyli Haxhire",
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Pogradeci Agency, 24/7 Zone
Qendra "Kapri"
Rr. "Rreshit Collaku", Lagjja 1, Pogradec

Korça Agency, 24/7 Zone
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Fieri Agency, 24/7 Zone
Lagjja "11 janari", Rr. "Ramis Aranitasi", Fier

Vlora Agency, 24/7 Zone
Lagjja "Isa Boletini", Vlorë

Shkodra Agency, 24/7 Zone
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Lezha Agency, 24/7 Zone
Lagjja "Besëlidhja "
Shëtitorja "Gjergj Fishta", Lezhë

As at 31 December 2016