ProCredit Bank

2023 ANNUAL REPORT

Albania


Zona
24/7
Depozitim
Cash in
Tërheqje
Cash out
Video

Our Mission

We strive to be the partner bank for small and medium-sized enterprises (SMEs) in our market as well as for private customers who have the capacity to save and prefer to bank through digital channels, and we follow sustainable and impact-oriented banking practices. In doing so, we want to generate long-term sustainable returns and create a positive impact in the economy and society we work in.

Financial Year in brief

STRENGTHENED MARKET POSITION

- The bank's total assets in 2023 have reached 426 million EUR, which has resulted in an 19% increase from the previous year.
- Our SME clients maintained consistent growth throughout 2023, despite market challenges.
- We managed to achieve a significant increase in deposit volume, reaching a growth of 31% compared to the previous year.
- We keep maintaining a solid capitalization, which is reflected in a total regulatory capital ratio of 21.0%.

GOOD FINANCIAL PERFORMANCE BEYOND GOALS

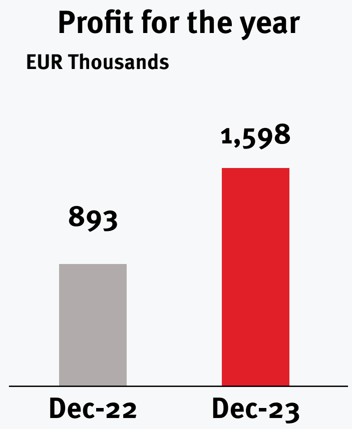
- The strategic reliance on customer deposits in 2023 enabled the bank to achieve a Deposit to Loan ratio of 119%, exceeding the planned target.
- Profit before tax and loss allowances increased by 80.5% compared to the previous year, mainly due to a 2.8% increase in the net interest margin.

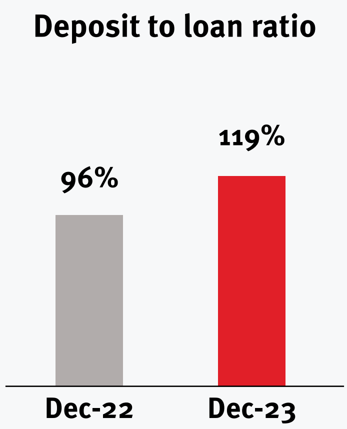
STRONG FOCUS ON SUSTAINABILITY

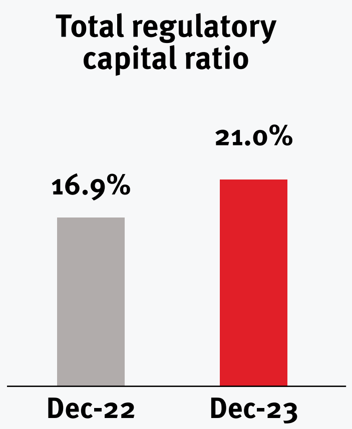
- A significant 20.0% of our total portfolio is dedicated to green lending, emphasizing our focus on renewable energy and energy efficiency investments.
- Maintaining strong portfolio quality is attributed to our closed relationship with our clients, which is resulting in a decrease in the share of nonperforming loans to 2.2%.

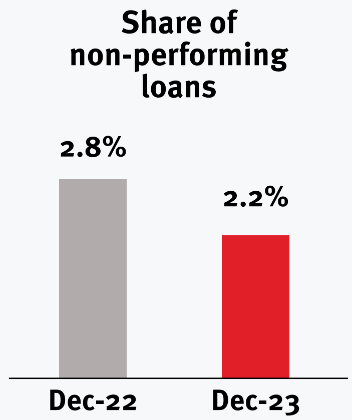
2024 GOALS AND MID-TERM PERSPECTIVE

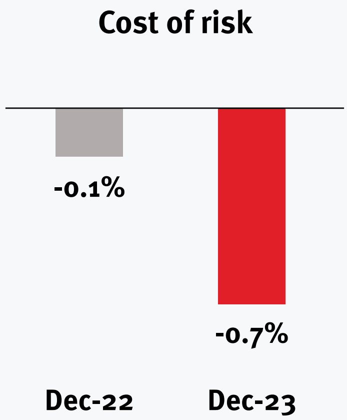
- In 2024, our focus remains on sustaining the growth of our loan portfolio, particularly prioritizing the expansion of our green loan portfolio.
- We are committed to expand our client base, both in retail and business clients.
- Our main objective is to ensure sustainable levels of return on capital and effective management of the cost-income ratio.

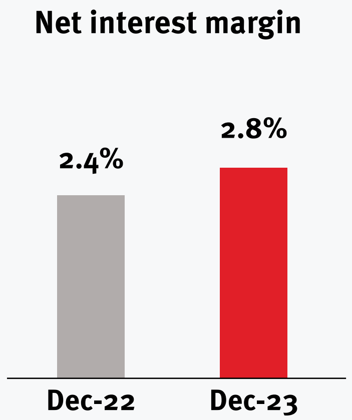

Profit for the year
EUR Thousands
893
1,598
Dec-22
Dec-23

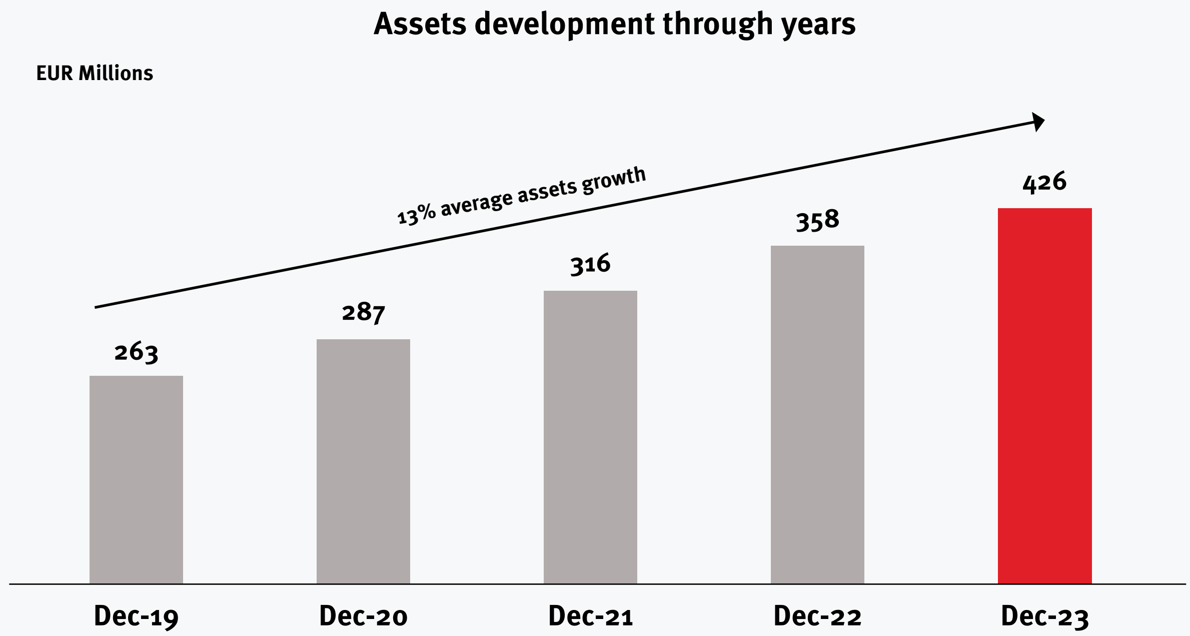

Deposit to loan ratio
96%
119%
Dec-22
Dec-23


Total regulatory capital ratio
16.9%
21.0%
Dec-22
Dec-23


Share of non-performing loans
2.8%
2.2%
Dec-22
Dec-23


Cost of risk
-0.1%
-0.7%
Dec-22
Dec-23


Net interest margin
2.4%
2.8%
Dec-22
Dec-23


Assets development through years
EUR Millions
13% average assets growth
263
287
316
358
426
Dec-19
Dec-20
Dec-21
Dec-22
Dec-23

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

ProCredit Group Impact Report

Contents

ProCredit Today

For nearly three decades of operation in Albania, ProCredit Bank has demonstrated remarkable adaptability in a dynamic environment. At the core of this resilience is our people—a carefully selected team of skilled professionals and managers dedicated to making a meaningful impact on our society. This dedication aligns seamlessly with ProCredit Bank's evolving perspective on economic development. Over the years, we have progressed from simply offering financial support to adopting a proactive, structured strategy that embraces digitalization and promotes sustainable economic growth.

In the retail segment, our focus is on providing convenient digital solutions for various banking needs. We foster a culture of saving and financial responsibility by offering simple and effective services, while providing professional advice to our customers on investment decisions, banking transactions, and personal savings.

In the business segment, our focus remains on providing quality service to small and medium-sized enterprises (SMEs), as we believe these businesses create the largest number of jobs and significantly contribute to our economy. Specifically, we collaborate with companies that drive innovation and aim to minimize their environmental impact. Supporting local production, tourism, and agriculture is a strategic priority for the country, as these are key sectors of our economy. Approximately 12% of our business loan portfolio is dedicated to supporting agribusinesses, fostering rural development and economic growth in less-developed regions. Our goal is to encourage sustainable agricultural practices among our clients, and we are committed to supporting their efforts in this area. By promoting new technologies and enhancing local knowledge and skills, we aim to increase the productivity of our clients and the agricultural sector in general.

Central to our overall strategy is a significant expansion of our presence in the SME and retail segments, where we aim to amplify our impact through scale and innovation. To achieve this, we are making significant investments to further enhance the capacity of our teams, our branch network, and our IT solutions. Despite offering convenient solutions through technology, the bank is constantly increasing the capabilities of Client Advisors to engage in face-to-face discussions with our customers.

What distinguishes ProCredit as a financial institution is our commitment to assessing the environmental impact of our actions and operations. We firmly believe that this dedication to sustainability and responsibility enhances our value and strengthens our connection with the communities we serve. We are committed to establishing benchmarks for our environmental, social, and governance (ESG) objectives. Currently, 20% of our total loan portfolio is allocated to our Green Portfolio, and we aim to increase this to 25% in the coming years.

At ProCredit Bank Albania, over 70% of our staff are female. We are committed to promoting gender equality by raising awareness within our team and empowering women, both internally and among our clients, through comprehensive programs that support women entrepreneurship.

Finally, we express our sincere gratitude to our employees, whose dedication and commitment were instrumental in achieving excellent results this year. Their strong commitment to ethical behaviour illustrates our collaborative approach to business, in line with our goal of making a positive impact.

Management Board Member as of December 2023
Mirsad Haliti

ProCredit Bank Albania is 100% owned by ProCredit Holding with its headquarters in Germany. The bank itself is not a shareholder with shares/quotas and does not own any other commercial company. In addition to the Shareholders' Assembly, the main governing bodies of the bank are: The Management Board, the Board of Directors, and the Audit Committee. The Bank's Board of Directors meets four times a year. The meetings of the Audit Committee are also organized at the same frequency. The Board of Directors of the Bank consists of 5 members, while the Audit Commitee and the Management Board consist of 3 members each.

The term of the Board of Directors members is 4 years, with the right to re-election. The term of the Management Board members is 3 years, with the right to re-election. The term of the Audit Committee members is 4 years with the right of re-election.

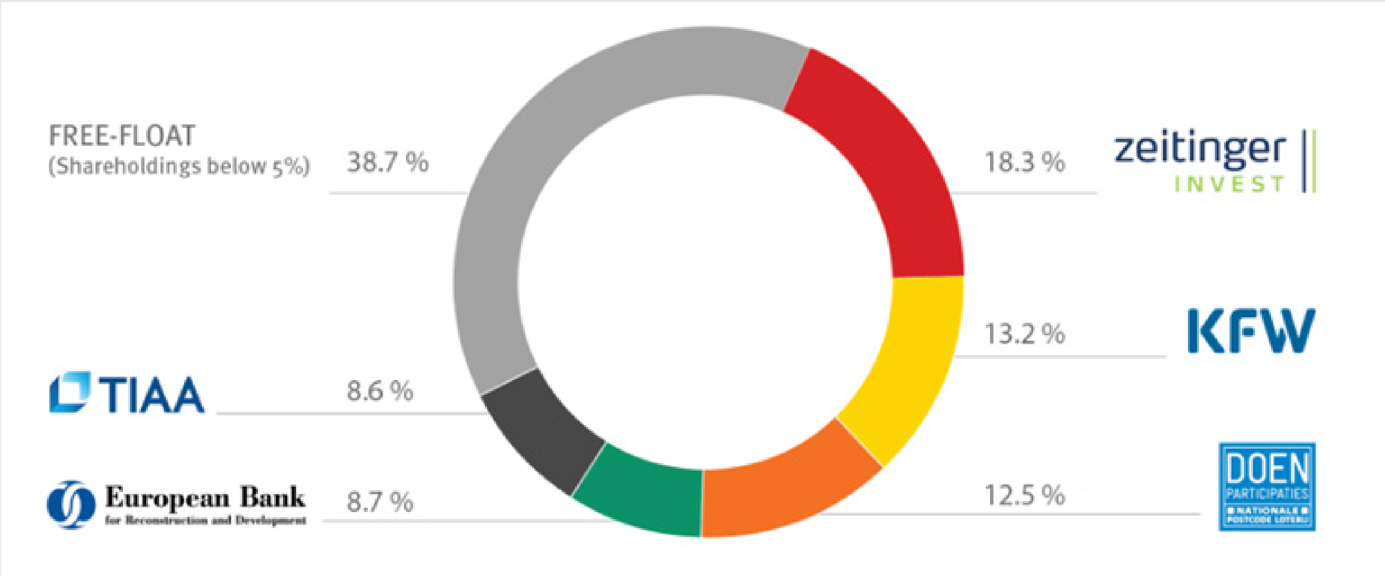
The following is the composition of the bank's governing bodies, until 31.12.2023:

Member of the Management Board:
Mirsad Haliti

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

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

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



Shareholder structure

According to available voting rights notifications, as of year-end approximately 52.7% of the shares in ProCredit Holding AG were held by the core shareholders:

- Zeitinger Invest GmbH, Kreditanstalt für
- Wiederaufbau (KfW),
- DOEN Paticipaties BV, and
- the European Bank for Reconstruction and Development (EBRD).
- ProCredit Staff Invest Beteiligungs GmbH is also a core shareholder, with roughly 3% of the shares.
- The Teachers Insurance and Annuity Association of America holds between 8.6% of the shares.

The free float, defined by the German Stock Exchange as holdings below the threshold of 5% of voting rights, was around 398.7% on 31 December 2023 according to voting rights notifications. This includes investments of more than 3% in ProCredit Holding AG. KGaA by FMO (Netherlands Development Finance Company), BIO (Belgian Investment Company for Developing Countries), MultiConcept Fund Management, the European Bank for Reconstruction and Development and MainFirst.

FitchRatings
BB

ProCredit is rated by the international rating agency Fitch Ratings.

Supervised by
BaFin

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

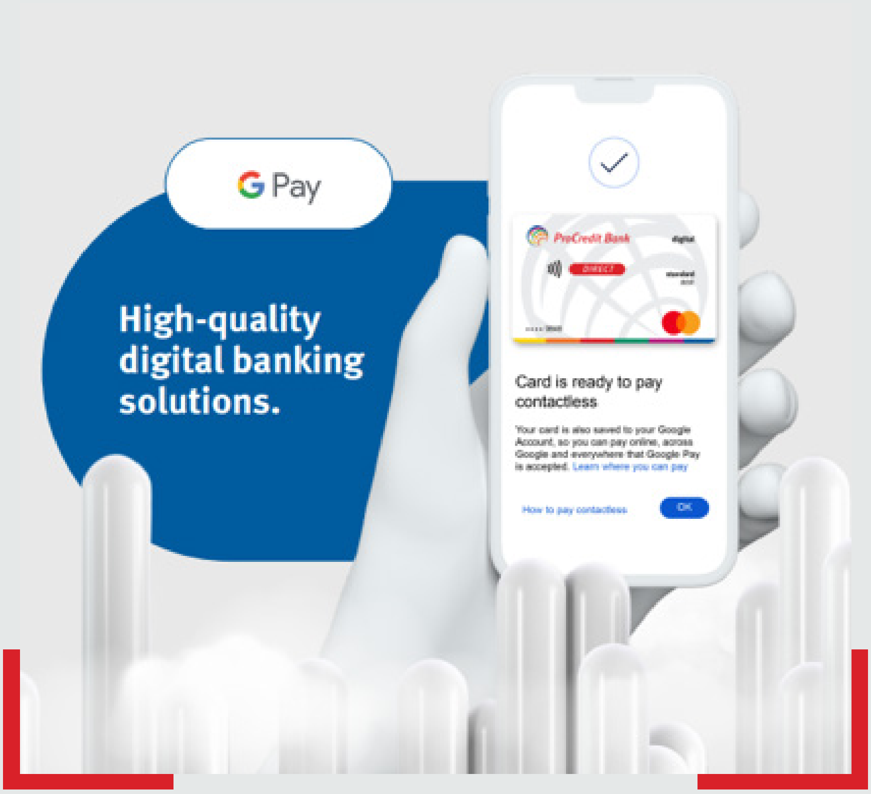
Digital Approach

In today's fast-paced world, development, technology, and digitalization are becoming the main pillars of banking activities. For ProCredit Bank, the automation of internal processes and the digitalization of our services provide a competitive advantage. These advancements facilitate banking actions for our customers, ensuring security, speed, and efficiency. We are committed to advancing digital transformation in our banking operations to provide secure and convenient services to our clients while enhancing the efficiency of our internal processes. By investing in and encouraging the adoption of innovative, high-quality digital banking solutions, we aim to lead the way in technology in our country.

Our digital platforms, e-Banking and m-Banking, are our continuous focus. We are dedicated to always providing and improving the services we offer as a digital bank, aiming to deliver intuitive and fast solutions for our customers. All our services remain digital, and we will continue to invest in their enhancement. Client advisors at our branches, as a "human enhancement" of digitalization, will further advance the quality of all banking services for our clients.

ProCredit Bank is the first bank in Albania to offer the Google Pay service to all individuals with an Android mobile phone. Our client advisors are dedicated to providing personalized service, discussing with clients to understand their plans and financial capacity to invest. They aim to get to know customers and their financial needs to advise them on the banking or financial services they require.

ProCredit Bank's goal is to continue offering financial and non-financial services through various digital and alternative channels, giving customers a full banking experience. We will also continue to provide expertise for various financial needs through our client advisors. Digitalization will remain a strategic direction for ProCredit Bank in the coming years. We are dedicated to staying at the forefront of technological advancements to better serve our clients and maintain our competitive advantage.



Our Environmental Approach

Green loans play a crucial role in the fight against climate change and global warming. They contribute to combat the consequences of climate change on the environment, economy and society.

As part of Procredit Group, Procredit Bank Albania embodies its social responsibility principles in all our daily operations. We pay attention to environment protection and contribute to reduce the consequences of climate change through our financing process. Consequently, throughout the years our bank has engaged in many activities to raise environmental awareness, e.g. (i) through numerous trainings and events organized for our staff, clients and other third interested parties, (ii) helping to improve the environmental performance of the businesses we work with through promotion of green loans and advising to move towards sustainable practises.

The growth of the bank's green portfolio is an indicator of our intensive efforts in this direction. At the end of 2023, approximately **20.2%** of our total loan portfolio was green. In our mid-term objectives we aim for the green portfolio to be **25%**.

Since 2011, ProCredit Bank Albania has implemented effectively the Environmental Management System (EMS), based on three main pillars:

Internal environmental management

Our internal processes have been projected to reduce systematically our environmental footprint.

Effectiveness in banking infrastructure and the communication of environmental matters raise awareness and the effective use of the resources in our institutions.

Management of environmental and social risk in lending

We aim to work with those businesses whose activities do not harm the environment, or do not endanger the health, the safety and the well-being of the employees and community.

Through a conscientious approach towards risk assessment, we aim to minimise the potential negative environmental impact due to the lending operation.

Green loans

We promote green investments and savings in the countries where we operate.

We support the clients that aim to improve business processes by investing in energy efficiency, renewable energy, or environment protection.

Procredit Bank Albania is dedicated to continuously minimize its environmental footprint.

1 - We have set out our own targets to reduce CO_2 emissions by improving energy efficiency, optimize resource consumption and promote renewable energy usage.

2 - In 2018 we were amongst the first companies in Albania which started the replacement of fossil fuel engines with electric vehicles. In addition all our car fleet is fully electric or plug in hybrid.

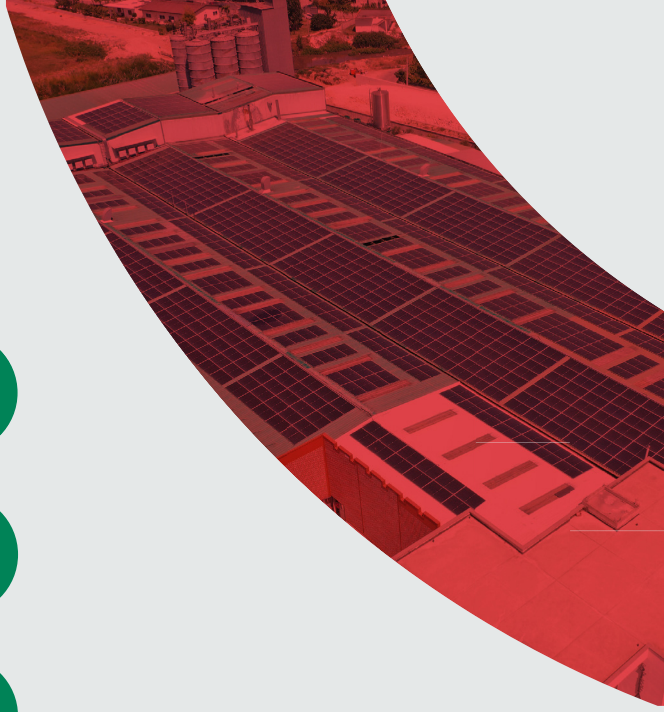
3 - In 2018, we were the first bank in Albania that invested in rooftop photovoltaic panels for self-consumption in our premises, setting the example for our clients and other businesses to start investing in green measures.

4 - Environmental and social impact of our business clients is an important part of our decision making process. In this regard, in addition to the exclusionary list published on our website, at the group level we have also prepared a credit strategy for plastic manufacturers, based on the long-term negative impact that plastic products have on environment and health.

Green Loans

During 2023, the green portfolio at ProCredit Bank was estimated at 20.2% of the total loan portfolio. Our multi-year experience in granting green loans to businesses in Albania is materialized with the implementation of best practices and the strategy followed over the years in the process of assessing and analyzing our clients' investment plans.

Procredit Bank is the first bank in the Albanian banking sector that granted the first green loan in 2009. We financed the first photovoltaic project in 2018 and up to now we are amongst the leading banks in financing renewable energy projects for self-consumption. Up to december 2023 we have financed 183 projects in photovoltaics with an accumulated installed capacity of 55.2 MWp.



Green investments at ProCredit Bank are divided into three main categories:

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

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

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

Our key material topics remain consistent between this reporting period and previous years, as does their alignment with selected SDGs. However, in this report, we have chosen to focus on elaborating five key SDGs that best represent our impact.

SDG GOALS	8 9 10	**ECONOMIC DEVELOPMENT** We contribute to environmentally and socially sound economic development in Albania. We provide responsible and sustainable financial services to SMEs and support local business activities. We work with companies that drive innovation through state-of-the-art investments and which strive to reduce their environmental impact. Our business clients, who are mostly active in the manufacturing and service sectors, follow long-term business strategies and generate employment.
	8 11	**PRUDENT CREDIT RISK MANAGEMENT** In our lending operations we strive to minimise potentially harmful economic, environmental and social impacts. We therefore do not allow our clients to become over-indebted and we do not finance ecologically unsound projects. We support our clients throughout their economic cycles and our lending operations are tailored to the risk profile of our SME clients. As environmental and social risks may turn into financial risk for the client and reputational risk for our banks, we consider effective E&S risk management to be indispensable for a sustainable credit institution.
	7 8 9 11 12 13	**SUSTAINABLE FINANCE** We apply an economically, socially and environmentally inclusive approach to responsible finance. When evaluating the economic soundness of an investment, we take all possible negative environmental and social impacts into account. We provide financial instruments that enable our client groups to realise innovative projects that are relevant for the local economies. Our green loans promote climate-friendly technologies. We achieve our sustainable finance objectives through the strict application of our Exclusion List and by maintaining an active dialogue with our clients.

SDG GOALS		
	16	**CORPORATE GOVERNANCE** Our clear values, guidelines and organisational structures are designed to enable our employees to act responsibly and foster our clients' trust. We prioritise flat hierarchies, timely and transparent communication, as well as small, focused teams, so that our banks can (re)act quickly and appropriately. Our standards often go beyond the local regulatory requirements, and we foster a culture of compliance among all staff. These and other values are documented in our Code of Conduct. We set ourselves high standards of corporate governance and demand that our clients do the same.
	16	**RELIABLE PARTNERSHIPS AND TRANSPARENT SERVICES** We seek to build long-term reliable and stable partnerships with our business and private clients. Our staff analyse our clients' business models and investment ideas closely so that they can provide sound advice. This contributes to sustainable development for our business clients and prevents them from becoming over-indebted. We also support private individuals, including business owners, with transparent well-structured account services, savings options and lending products, primarily via convenient and secure digital channels.
	8	**TECHNOLOGY AND INNOVATION** We promote digital transformation in our banking operations to deliver secure and convenient services to our clients and we maximise efficiency in our internal processes. By investing in and promoting the uptake of innovative and high-quality digital banking solutions, we strive to be a technological trailblazer in our countries of operation. We also continue to strengthen our defences against cyberattacks to ensure a consistently secure and reliable banking environment both for our staff and for our clients.
	7 8 11 12 13	**INTERNAL ENVIRONMENTAL MANAGEMENT** To minimise our environmental footprint, we continuously analyse and monitor the impacts resulting from our activities. We set objectives that are designed to reduce emissions by improving energy efficiency, promoting renewable energies, and reducing resource consumption. We set an example to companies in our countries of operation by adopting green building standards and having our efforts visibly certified. We regularly publicise our environmental achievements with a view to raising awareness among employees and clients alike.
	5 8	**ETHICAL VALUES AND WORKING ENVIRONMENT** We seek to promote a positive working environment characterised by diversity, flat hierarchies and open communication. We pride ourselves on having developed an approach to staff that does not solely rely on monetary compensation. Our ethical approach to banking is fully integrated into our corporate culture. We heavily promote independence and critical thinking, responsibility, gender equality and fairness among our staff. Ensuring the health and safety of our employees is among our foremost priorities. Our values are manifested in our Code of Conduct, which serves as the ethical compass of the ProCredit group.

	5 **8**	**FAIR RECRUITER AND EMPLOYER** To attract and retain the right employees, we have developed a transparent selection process complemented by fair internal promotion opportunities and remuneration. Fairness and openness are the key distinguishing features of our recruitment procedures. Our merit-based approach treats every applicant in the same way, regardless of gender, origin or connections. We also place great value on a transparent salary structure and consciously refrain from offering short-term, performance-related bonuses. Fair remuneration is ensured by capping the ratio between the highest and median salary levels.
	4 **13**	**STAFF DEVELOPMENT** We develop staff capacity through comprehensive knowledge and skills training, regular performance reviews and clear career options. Our approach emphasises the importance of investing in ongoing personal and professional development. We support our employees by providing regular opportunities for dialogue and feedback, and by offering continuous training. Our professional development curricula include not only banking skills, but above all courses on humanities, encouraging our staff to reflect on their own values and role in society and to think independently.

Note: ☐ Involvement with topic-related negative impacts which occurs mainly through our business relationships is depicted in red; ☐ Involvement with topic-related negative impacts which occurs mainly through our activities is depicted in green.

Enhanced Business Approach

We believe in the power of small and medium-sized enterprises (SMEs) as the backbone of economic growth and social progress. At our core, we are dedicated to supporting and empowering SMEs, recognizing their vital role in creating jobs and driving economic development. Through our transparent and collaborative approach, we have cultivated lasting partnerships with our business clients, offering tailored financial solutions and expert guidance to meet their unique needs.

Our comprehensive banking services are designed to fuel business growth and enhance operational efficiency. By partnering with us, SMEs can access a range of specialized services and expert advice from our Business Advisors, who are committed to helping businesses thrive and succeed. Our goal is to establish enduring partnerships with SMEs, providing them with the tools and resources they need to flourish in a competitive market.

We place a strong emphasis on responsible financial practices, ensuring that our clients receive personalized service and support tailored to their specific business requirements. Our innovative “Haus Bank” business concept offers SMEs exclusive access to a suite of products and services tailored to their industry, growth objectives, and market positioning.

The past year has been exceptionally rewarding for us, showcasing outstanding achievements and positive performance across all indicators. We have made significant strides in supporting our clients’ projects and fostering the overall growth of their businesses. This includes meeting the needs and investment goals of our individual clients. Our total assets have experienced a substantial increase, while our deposit base has grown by an impressive **31%**. These figures reflect the high level of trust our clients place in us, the only German bank in our country.

A key focus has been on supporting green projects, solidifying our position as a leader in advising, supporting, and financing these initiatives. Notably, renewable energy and energy efficiency projects now constitute over **20%** of our total credit portfolio. By investing in solar panels, upgrading machinery, and implementing eco-friendly measures, businesses can reduce costs, increase productivity, and create a healthier work environment. Moreover, being an impact-oriented institution, last year we launched preferential offers aimed at supporting women in business, thereby advancing their social standing and economic influence.

We have continued to invest heavily in staff training and development, aiming to advance their careers and enhance the quality of services provided to our clients. The past year also saw a considerable increase in our staff numbers, a trend we plan to continue this year to support further expansion of our activities and impact in the region.

ProCredit Bank remains committed to excellence and innovation, ensuring that we meet and exceed the expectations of our valued clients. Join us on this journey to success and let us be your trusted partner in achieving your business goals.

Retail

ProCredit Bank aims to enhance its position as the preferred bank for retail clients by offering a full range of banking services through a model that integrates advanced technology with the physical presence of staff in our branches. Clients have the opportunity to have one-on-one meetings with a dedicated team of client advisors, especially when discussing important matters such as investments, savings planning, or financing needs.

Simultaneously, we strive to establish ourselves as an appealing bank for retail clients. To achieve this goal, we promote a culture of savings, provide transparent interest rates, and aim to be the financial partner for long-term investments. As a preferred bank for retail clients, we have entered into partnerships with construction companies enabling individual clients with stable economic incomes to finance home purchases without requiring a mortgage.

To advance these initiatives, the bank's focus includes ongoing investment not only in technology, ensuring modern and secure platforms, but also in continuous staff training, recognizing our personnel as our most valuable asset.

Risk Management

ProCredit Bank defines credit risk as the potential losses incurred when the counterparty/client in a transaction fails to fulfill its contractual obligations, either in full or on time... The bank distinguishes between client's credit risk and counterparty risk in the context of overall credit risk (including creditor risk). The primary risk for us is credit risk and exposures related to loans.

The main activity of ProCredit Bank is to provide financial support to SME clients as well as individuals who value savings and choose long-term investments. Our bank focus is also Very Small Enterprises, which may include family businesses and agricultural producers. The objectives of credit risk management are to achieve high quality of the loan portfolio, low concentrations of risk within the loan portfolio and adequatecoverage of credit risk with loan loss provisions. The Bank's credit risk management framework is presented in the relevant policies and standards, which are based on the policies of ProCredit Group and set out the Bank's core principles for its management. These strategies, when taken as a whole, illustrate the successful lending activity of ProCredit Bank for developing and transitional economies. Moreover, these documents are fully in accordance with the laws and the regulations of the Bank of Albania.

Thus, the policies and standards define risk mitigation measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (regular monitoring of the financial situation, review of early warning indicators, and management of intensive and problematic loans). The bank uses several approaches to limit credit risk during its management process, which includes a comprehensive review of our clients' debt capacity. This is where taking steps to avoid overindebtnes , regularly reviewing credit exposure, and closely managing bad credit exposure can be applied. In addition, the use of well-designed and well-documented processes, the principle of four eyes, long-term relationships and regular communication with clients, as well as the investment in well-trained and motivated staff help to mitigate credit risk. Also, portfolio analysis is one of the core competencies of our bank.

Due to the very dynamic macroeconomic environment in which we operate, this applies to both ProCredit Bank and the Group. The bank uses a loan portfolio monitoring system that is compliant with the International Financial Reporting Standard (IFRS 9) that identifies and manages potential problems early on. However, the bank's decision making is also based on several macroeconomic analyses with an emphasis on the analysis of the market and economic sectors. Another factor contributing to Credit Risk being a well-managed risk, and ProCredit Bank's portfolio being sufficiently diversified, is the rigorous assessment of any potential concentration of risk for its impact on the bank's ability to absorb it. This proactive approach ensures that the bank maintains a balanced portfolio, minimizes exposure to high-risk areas, and enhances its overall financial stability. By continuously evaluating the potential impact of risk concentrations, ProCredit Bank can implement strategies to mitigate these risks effectively, thus safeguarding its assets and ensuring sustainable growth. The diversification consists of a wide range of economic sectors and customer groups, including medium-sized, small and very small companies, as well as individual and institutional customers.

ProCredit Bank also aims to offer customers clear and easy-to-understand products, resulting in a high level of transparency for both parties. We use a variety of credit risk management techniques when dealing with different customer categories and credit exposures, such as the separation of duties for small and medium-sized credit exposures, the implementation of standardized and tested credit procedures that are provided to individual customers, the identification of the criteria for loan decision-making, the implementation of different collateral requirements based on the loan amount, and the documentation of the customer's credit history. In addition, collateral evaluation is done by licensed third-party companies, thus reducing the risk associated with collateral evaluation. As the vast majority of bank loans are paid in monthly instalments, failure to meet contractual obligations by the borrower is considered an early warning of potential default, prompting immediate response from the bank. The monitoring mechanism, which uses early warning indicators, enables the Bank to act quickly in case of a possible default.

Our 360-degree analysis on client and exposure assessment

General needs of the client, alongside current demand, and potential future activities with the client, are key considerations. This approach is integral to Hausbank's concept and fosters long-term relationships with clients.

The collateral coverage ratio, based on available collateral and in accordance with collateral requirements.

Ownership structure, managerial skills and experience, company organization (e.g., succession plan), business model, market trends and development.

Client's approach to the environmental, social, health and safety impact.

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

During the fiscal years 2020-2023, credit risk management has been a primary focus. Our extensive market knowledge and the careful selection of ProCredit Bank's clients have contributed to effective credit risk management. Following the outbreak of COVID-19 in 2020, ProCredit Bank implemented several concrete measures to prevent the deterioration of the loan portfolio's quality. In 2021, the Ukraine-Russia conflict significantly impacted the global economy. In response, ProCredit Bank intensified its annual client monitoring by updating risk analyses for all business clients. This process took into account the conflict's effects on economic sectors and the individual impacts on companies' liquidity and solvency.. In response to the rise in interest rates in the banking system, driven by an increase in the base rate, ProCredit Bank carefully analyzed the potential higher risk impacting its customers' ability to pay. Special attention was given to sectors and customers affected by the devaluation of the euro throughout 2023. Consequently, during the intensified monitoring of the loan portfolio, the risk classification was adjusted as necessary, and restructuring measures were implemented to prevent potential defaults. Credit risk remains a priority in 2024, both on a portfolio and individual basis. By closely observing our clients' business activities, we can anticipate potential challenges or funding requirements.

Risk tolerance

Appetite of ProCredit Bank Albania

The Bank explicitly refrains from engaging in speculative lines of business. The overall orientation is geared towards stability, particularly with regard to the earnings situation and the risk profile of the bank. The first important aspect in the determination of the Bank's risk appetite is the desired risk profile which is directly implied by the business model. Therefore, ProCredit's risk appetite is expressed, among other things, in the following business policy principles:

- Responsible banking for development including strong environmental/social/governance (ESG) risk awareness;
- Focus on core business: the provision of financial services to SMEs;
- Provision of simple, transparent financial products for the target customers (PIs);
- Modern banking services via electronic channels;
- Avoidance of risk concentrations;
- Careful selection of Business and PI clients with the objective of long-term cooperation;
- Structured, multi-phase selection process for all staff as well as careful training of staff, during which great importance is placed on ethical, social and environmental aspects;
- A vibrant risk culture that underlines the responsibility of each and every employee in the context of taking risks and which emphasises open communication and flat hierarchies.

Based on these general principles, the Bank conducts annually, and ad hoc if necessary, a risk inventory process, in order to assess which risks could have a significant negative impact on financial position (in terms of capital adequacy, profitability or liquidity).

After all risks have been identified, the second important aspect in this context is the maximum amount of risk that the Bank is willing to take and can accept with respect to its available funds and liquidity. Risk appetite is defined as the overall aggregate risk for individual risk types that the Bank is willing to accept with respect to available funds and liquidity, in order to achieve its strategic objectives and business plan. Accordingly, the management has defined the bank's risk appetite based on the internal capital adequacy assessment process (ICAAP) and the internal liquidity assessment process (ILAAP). The guiding principle is that the bank cannot incur greater risks than it is able to bear, in this way appropriate levels of capital and liquidity shall be ensured at all times. In order to achieve capital adequacy, as well as appropriate liquidity levels at all times, the individual material risks of the bank need to be managed appropriately. The risk appetite therefore also implicitly covers the approach to risk management in the bank, including all policies, standards, guidelines, management instruments, risk reporting, controls and processes, as well as risk governance.

ICAAP

Normative perspective

In order to ensure the normative perspective at all times, the bank complies with internal limits and reporting triggers, aligned to the regulatory requirements of the Bank of Albania (BoA) and ProCredit Group policies.

Economic perspective

On the basis of the simple development-oriented sustainable business model and the resulting stable risk profile, along with the strong risk management processes, the management determines that a maximum of 80% of the risk-taking potential (called resources available to cover risk, RAtCR) can be used to cover risks in the economic perspective.
In line with the business and risk strategy, the bank assumes the following material risks and assigns these risks percentages of the RAtCR in the economic perspective:

Credit risk: Based on the Hausbank strategy for small and medium-sized businesses and focus on the provision of financial services, credit risk represents the most significant risk category for the bank. Accordingly, this risk is assigned the highest share (51%) of the Bank's RAtCR.

Thanks to highly trained staff, as well as a strong internal control system and various instruments used specifically to manage Operational risk (such as a risk event database), the Bank has historically experienced stable and low-level losses from operational risks (including fraud risks). This risk is, therefore, assigned a relatively low share of 13% of the RAtCR.

Since it’s almost impossible to fully match the repricing structure of assets and liabilities, and as the local financial market offers limited mechanisms for hedging the Interest rate risk, acceptance of interest rate risk to a certain degree is necessary for achieving the strategic objectives. This risk has thus been allocated a share of 13% of the RAtCR.

Although the bank pursues a conservative strategy with respect to Foreign currency risk, and it aims to keep currency positions closed to the maximum possible extent, it is impossible to avoid currency risks in specific circumstances. Therefore, this risk is assigned a share of 3% of RAtCR.
Furthermore, the remained 20% of RAtCR represents a buffer, intended to cover other risks, as well as the stress scenarios.

ILAAP
The liquidity risk appetite/tolerance is defined through a set of indicators and related limits and reporting triggers, which intend to measure and limit the undertaken risks under different dimensions/elements. The internally set reporting triggers are stricter than the regulatory requirements, therefore ensuring a prudent approach in relation to the liquidity risk management.
In addition, based on internal policy requirements, the bank monitors, assesses and manages the liquidity risk under an internally defined model, where compliance to related indicators limits and reporting triggers should be ensured at all times.

Comprehensive Statement

In the framework of the definitions and principles set forth in the Regulation of the Bank of Albania "On the basic principles of the management of banks and branches of foreign banks and the criteria for the approval of their administrators" ProCredit Bank sh.a. declares that:

Pursuant to the ProCredit Bank statute, the Members of the Board of Directors, as well as the Members of the Bank's Control Committee, are not paid for the performance of their duties but receive a per diem allowance appropriate for expenses, which is determined from time to time by the Shareholders' Assembly.

The members of ProCredit Bank's Executive Board, as the most senior executives and in compliance with the risk profile of the bank, are paid on the basis of a fixed monthly salary, the annual gross amount of which is ALL 36,398,422. The salary structure for the members of the Executive Directorate also includes a part of the salary that is paid in shares of ProCredit Holding. The remuneration policies of the bank consist in the distribution of a fixed monthly salary for the job in relation to the position, experience, responsibilities and tasks that each employee has, as well as in not giving additional bonuses. Remuneration policies and practices are well-documented and transparent to staff regarding their constituent elements and the criteria on getting them.

Other ways of rewarding employees are given in the form of:
- Private Health Insurance Package, which includes the medical checkup package, which provides coverage for health examinations starting from the annual routine checkup.
- Travel and rental package
- Telephone package

With the aim of legitimacy, security and effective implementation throughout its activity, ProCredit Bank defines and implements the following acts:
- Risk management policy and procedures
- The procedure on the appointment criteria and the documentation for the approval by the Bank of Albania of the bank's administrators
- The procedure on guaranteeing legal compliance with external regulations.

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

The principle of a fixed (not variable) salary is strongly reaffirmed as a key element of the institution's salary policy. Not only have performance-based bonuses been abolished, but also additional financial benefits, such as the thirteenth or fourteenth monthly salary, payments of any kind, vouchers, holiday expenses, etc. are also not practiced. This is done to ensure a stable form of remuneration for our employees over the long term, rather than an unpredictable package that can be changed. The positions are interconnected, reflecting the different degrees of complexity and contribution to the development of the Bank. The number of different positions in the pay grid is deliberately limited to reflect the relatively flat hierarchical organization of the bank. Having a clear salary framework illustrates manifestly the identity of ProCredit bank, in coherence with ProCredit banks of the group that share a common vision by gathering all their employees under the same "roof" of principles.

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

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

Independent Auditor's Report and Financial Statements

ProCredit Bank Sh.a.

Independent Auditor’s Report and
International Financial Reporting Standards

Financial Statements
for the year ended 31 December 2023

Contents

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Independent Auditor's Report

To the Shareholder and Management of ProCredit Bank Sha

Opinion

We have audited the financial statements of ProCredit Bank Sha (the Bank), which comprise the statement of financial position as of December 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Grant Thornton sh.p.k.
Tirane, Albania
6 June 2024

Grant Thornton shpk

Statutory Auditor
Erjona Isufi

Grant Thornton
Sh.p.k.
NIPT
K 91923007 M
Tirana
ALBANIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

		In Lek'000		In EUR'000	
		31 December		31 December	
	Note	2023	2022	2023	2022
Interest income	9	1,757,511	1,273,212	16,161	10,706
Interest expense	9	(571,185)	(298,612)	(5,252)	(2,511)
Net interest income		**1,186,326**	**974,600**	**10,909**	**8,195**
Loss reversal/(allowance)	10	191,059	39,524	1,757	332
Net interest income after loss reversal/ (allowance)		**1,377,385**	**1,014,124**	**12,666**	**8,528**
Fee and commission income	11	286,498	285,234	2,634	2,399
Fee and commission expense	11	(163,528)	(146,678)	(1,504)	(1,233)
Net fee and commission income		**122,970**	**138,556**	**1,130**	**1,165**
Result from foreign exchange transactions		127,587	123,966	1,173	1,042
Net other operating result	12	(85,083)	14,094	(782)	119
Operating Income		**1,542,859**	**1,290,740**	**14,187**	**10,854**
Personnel expense	14	(398,340)	(310,491)	(3,663)	(2,611)
Administrative expenses	13	(917,883)	(842,922)	(8,440)	(7,088)
Profit/(Loss) before tax		**226,636**	**137,327**	**2,084**	**1,155**
Income tax (expense)	15	(52,870)	(31,114)	(486)	(262)
Profit/(Loss) for the year		**173,766**	**106,213**	**1,598**	**893**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities measured at FVOCI		-	-	-	-
Deferred tax	15	-	-	-	-
Total comprehensive profit / (loss) for the year		**173,766**	**106,213**	**1,598**	**893**

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

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

PROCREDIT BANK SH.A.
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

		In Lek'ooo		In EUR'ooo	
		31 December		31 December	
	Note	2023	2022	2023	2022
Assets					
Cash and balances with Central Bank	16	10,191,805	7,521,155	98,111	65,842
Loans and advances to financial institutions	17	4,024,763	3,345,103	38,744	29,284
Loans and advances to customers	18	26,813,196	27,695,917	258,117	242,457
Investment securities at amortized cost (AC)	19	2,871,917	1,833,348	27,646	16,050
Other assets	20	195,568	293,113	1,884	2,566
Property, plant and equipment	22	197,434	246,024	1,901	2,154
Intangible assets	23	4,901	6,313	47	55
Total assets		**44,299,584**	**40,940,973**	**426,450**	**358,408**
Liabilities					
Liabilities to banks	24	2,784,221	4,357,656	26,802	38,148
Liabilities to customers	25	32,415,538	27,022,115	312,048	236,559
Other borrowed funds	26	3,412,262	3,902,050	32,848	34,160
Deferred tax liabilities		1,024	-	10	-
Corporate income tax liability		28,116	29,423	271	258
Subordinated debt	27	749,186	815,675	7,212	7,141
Other liabilities	28	598,209	695,951	5,759	6,093
Other provisions	28	52,929	33,770	510	296
Total liabilities		**40,041,485**	**36,856,640**	**385,460**	**322,653**
Shareholders' equity					
Share capital	29	5,711,469	5,711,469	54,981	50,000
Accumulated deficit	29	(2,170,535)	(2,338,990)	(20,970)	(20,513)
Legal reserves	29	717,165	711,854	6,904	6,232
Currency translation reserve		-	-	75	37
Total shareholders' equity		**4,258,099**	**4,084,333**	**40,991**	**35,755**
Total liabilities and shareholders' equity		**44,299,584**	**40,940,973**	**426,450**	**358,408**

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

These financial statements have been approved by Management on June 06, 2024 and signed on their behalf by:

Mirsad Haliti
Chief Executive Officer

ProCredit Bank sh.a.
Drejtoria e Përgjithshme Tiranë

Kastriot Suka
Member of the Management Board

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

In Lek'ooo	Share Capital	Legal Reserves	Retained Earnings/ Accumulated deficit	Total
Balance at 1 January 2022	**4,995,616**	**708,110**	**(2,441,458)**	**3,262,268**
Profit for the year	-	-	106,213	106,213
Other comprehensive income	-	-	-	-
Total comprehensive income	**-**	**-**	**106,213**	**106,213**
Increase in Paid Up Capital	715,853	-	-	715,853
Transfer to legal reserve	-	3,744	(3,744)	-
Balance at 31 December 2022	**5,711,469**	**711,854**	**(2,338,990)**	**4,084,333**
Profit for the year	-	-	173,766	173,766
Other comprehensive income	-	-	-	-
Total comprehensive income	**-**	**-**	**173,766**	**173,766**
Increase in Paid Capital	-	-	-	-
Transfer to legal reserve	-	5,311	(5,311)	-
Balance at 31 December 2023	**5,711,469**	**717,165**	**(2,170,535)**	**4,258,099**

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 34to 91.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

		In Lek'000		In EUR'000	
	Note	**2023**	**2022**	**2023**	**2022**
Cash flows from operating activities					
Profit/Loss before income tax		226,635	137,327	2,084	1,155
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property, plant and equipment and investment property	21,22	91,148	72,216	838	607
Amortization of intangible assets	23	1,658	2,541	15	21
Impairment charge for credit losses	18	(191,054)	(39,525)	(1,757)	(332)
Interest income	9	(1,757,511)	(1,273,212)	(16,161)	(10,706)
Interest expense	9	571,185	298,612	5,252	2,511
Gain/Loss on disposal of assets		507	(26,060)	5	(219)
Charge of other provisions		45,442	7,603	418	64
		(1,011,990)	**(820,499)**	**(9,306)**	**(6,900)**
Changes in operating assets and liabilities:					
Loans and advances to financial institutions and compulsory reserve		(668,006)	(253,693)	(6,431)	(2,221)
Loans and advances to customers	18	1,086,416	(461,621)	10,458	(4,041)
Other assets	20	70,619	(127,925)	680	(1,120)
Liabilities to banks	24	(432,113)	(158,897)	(4,160)	(1,391)
Liabilities to customers	25	5,374,853	617,239	51,741	5,403
Other liabilities	28	(93,695)	379,271	(902)	3,320
		4,326,084	**(826,124)**	**42,081**	**(6,949)**
Interest received		1,740,406	1,285,892	16,754	11,257
Interest paid		(481,507)	(295,422)	(4,635)	(2,586)
Corporate income received		(53,152)	(3,020)	(512)	(26)
Net cash generated from/(used in) operating activities		**5,531,831**	**161,326**	**53,688**	**1,696**
Cash flows from investing activities					
Acquisition investment securities measured at AC		(2,872,787)	(1,833,654)	(27,655)	(16,052)
Proceeds from matured Investment securities measured at AC		1,833,348	1,700,596	17,648	14,887
Proceeds from sale of property, plant and equipment		2,300	585,864	22	5,129
Acquisition/ disposal of intangible assets		(343)	(2,076)	(3)	(18)
Acquisition of premises and equipment		(42,090)	(34,760)	(405)	(304)
Net cash (used in)/generated from investing activities		**(1,079,572)**	**415,970**	**(10,392)**	**3,642**
Cash flows from financing activities					
Proceeds from subordinated debt		-	-	-	-
Capital Increase		-	715,853	-	6,267
Proceeds from other borrowed funds		2,804,760	6,238,514	27,000	54,614
Repayment of other borrowed funds		(4,573,468)	(5,284,010)	(44,026)	(46,258)
Net cash generated from financing activities		**(1,768,708)**	**1,670,357**	**(17,026)**	**14,623**
Translation differences		-	-	6,758	2,557
Increase in cash and cash equivalents		**2,683,550**	**2,247,653**	**26,269**	**19,960**
Cash and cash equivalents at the beginning of the year		**8,248,297**	**6,000,644**	**72,208**	**49,691**
Cash and cash equivalents at end of the year	16	**10,931,848**	**8,248,297**	**105,235**	**72,208**

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

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

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2023 for ProCredit Bank Sh.a. (the "Bank").
The Bank, originally known as FEFAD Bank, was incorporated and domiciled in Albania since February 1999. The Bank is licensed to operate in retail banking activity in Albania in accordance with Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is a joint stock company limited by shares set up in accordance with Law 9901, dated 14 April 2008 "On entrepreneurs and commercial companies".
As at 31 December 2023, the immediate and ultimate parent company of the Bank is ProCredit Holding AG holding 100% of the shares.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank operates under a full banking licence issued by the central Bank of Albania. The Bank participates in the state deposit insurance scheme managed by the Albanian Deposit Insurance Agency.
As at 31 December 2023 the Bank was operating from Head Office in Tirana, 1 branch, and 7 Self Service areas (24/7 Zones) located in Tirana, Durres, Korçe, Fier and Shkoder.

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

Board of Directors
Board of Directors members as of 31 December 2023 are:
- Eriola Bibolli, Chairperson of the Board
- Christian Edgardo Dagrosa
- Gabriel Schor
- Jovanka Joleska Popovska
- Jordan Damchevski

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

Presentation in EUR
In addition to presenting the financial statements in the Bank's functional currency, supplementary information in EUR has been prepared for the convenience of users of the financial statements, translating Lek'000 to EUR'000. The statement of financial position at 31 December 2023 has been translated at the official rate of BOA as at 31 December 2023 of Lek 103.88 to EUR 1 (2022: 114.23). The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the Lek amounts into EUR at the average exchange rate during the year of EUR 1: Lek 108.75 (2022: EUR 1: Lek 118.92).
The supplementary information in EUR does not form part of the audited financial statements.

2. Material accounting policy information

Basis of preparation

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

Going concern

Management prepared these financial statements on a going concern basis. In making, this judgement management considers the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the situation in the financial market on the operations of the Bank. The Bank's CAR (capital adequacy ratio) at 31 December 2023 was 20.98% while the required minimum CAR for banks in Albania is 12%. During the year ended 31 December 2023, the bank generated a profit of LEK 173,766 thousand. There are no other factors or that may determine that the bank may not be in line with going concern principle. Support from the Group is also available on a need basis. The Bank has no intention to liquidate or cease its operations during the year 2023. Management expects the Bank to continue to be profitable in the future, and its ability to continue as going concern will not be impaired.

2. Material accounting policy information (continued)

Interest income and expense

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

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (AC), net of the Expected Credit Loss (ECL). Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

Fees and commissions

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

Financial instruments - key measurement terms

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

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

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

2. Material accounting policy information (continued)

Financial instruments - key measurement terms (continued)

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

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

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

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

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

Financial assets – classification and subsequent measurement – business model.
The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical accounting estimates and judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics.
Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

2. Material accounting policy information (continued)

Financial assets – classification and subsequent measurement – cash flow characteristics (continued)
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset, and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets. **Financial assets – reclassification.** Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. This reclassification has a prospective effect and is implemented commencing from the outset of the initial reporting period subsequent to the modification in the business model.

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

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 5 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 5 For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models. As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

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

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

2. Material accounting policy information (continued)

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

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

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

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

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

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

2. Material accounting policy information (continued)

Cash and cash equivalents (continued)

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

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

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

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL depending on the results of the business model assessment and SPPI test. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce or eliminate an accounting mismatch. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.
Impairment allowances applicable to financial assets at amortised cost are determined based on the forward-looking ECL models. Note 5 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re measured and accounted for in accordance with the accounting policies for these categories of assets.
The Bank's repossessed collateral at the reporting date is mainly included in inventories within other assets and it is subsequently measured at the lower between cost, typically determined by execution procedures, and net realisable value, being the fair value of the collateral determined by external independent appraisers that hold a recognised and relevant professional qualification and licence with experience in valuation of similar location and category, less costs to realise the sale. Repossessed collateral that is held for the purpose either by earning rentals or capital appreciation is included in investment property. Movable collateral and immovable collateral with issues related to the legal titles are not recognised as an asset when repossessed. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

2. Material accounting policy information (continued)

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

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

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

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

Property, plant, and equipment. Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received. Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period. The carrying values of property, plant and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

2. Material accounting policy information (continued)

Property, plant, and equipment (continued)

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

Description	Useful life 2023
Buildings	40 years
Business and office equipment	2-10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The right of use are amortised on a straight-line basis until the end of the lease term. Property, plant and equipment with useful lives of more than one year which fall under the materiality threshold of LEK 5,000 (2022: LEK 5,000) and, are also not material in aggregate, are expensed in profit or loss. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in Statement of Profit or Loss.

Intangible assets

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

Leases

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

Liabilities to other banks

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

Customer accounts

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

Other borrowed funds

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

2. Material accounting policy information (continued)

Subordinated debt

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

Income tax

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

Uncertain tax positions

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

Employee benefits

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

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.
Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Trade and other payables

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

Share capital

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

2. Material accounting policy information (continued)

Legal Reserve

According to law no. 9901 dated 14.4.2008 "On traders and trade companies", article 127 "From profit after tax, realized during the previous financial year, deducting expenses, the company must pass to the legal reserve, at least 5 percent of this value, until this reserve is equal to 10 percent of the registered capital of the company, or with a higher value, defined in the statute" According to Regulation No. 69, dated 18.12.2014, Article 6, "Other reserves include general reserves, which are created by the bank in the amount of 1.25% to 2% of the total possible exposures and exposures of the bank weighted by risk. These reserves are created by deducting one-fifth of the profit and are freely used by the bank in order to cover the unidentified risks in its activity and do not reflect the reduction of the value of a certain asset. Banks, in cases when the created reserve fund falls below the required minimum level, is obliged to meet it within a time limit of 2 (two) years.

Foreign currency transactions

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

3. Critical accounting estimates and judgments in applying accounting policies

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

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

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. Several macroeconomic quantities are investigated regarding their potential as a part of the PD model. The time series of macroeconomic factors is taken from the IMF World Economic Outlook Database, specifically for Albania. In particular, at least the following quantities are considered for the specification of the PD models: Growth of the gross domestic product, percentage change of the inflation, unemployment rate, lending rate, gas price, purchasing power parity rate.
These quantities reflect directly the development of the business cycle and are therefore valid potential inputs for a meaningful PD model.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses. For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both private and business, to which this exception applies.

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

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts) continued
The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures. The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

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

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets. The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets. The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method.

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

Assessment whether cash flows are solely payments of principal and interest ("SPPI") (continued)

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

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

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

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

4.1. New Standards adopted as at 1 January 2023

The following revised standards came into effect on January 1, 2023, but had no material impact on Bank's financial results or position:

- SNRF 17 "Insurance Contracts" (issued on May 18, 2017, and effective for annual periods beginning on or after January 1, 2023).
- Changes to SNRF 17 and one change to SNRF 4 (published on June 25, 2020, and effective for annual periods beginning on or after January 1, 2023).
- Transitional option for insurers applying SNRF 17 – Changes to SNRF 17 (published on December 9, 2021, and effective for annual periods beginning on or after January 1, 2023).
- Changes to SNK 1 and SNRF 2 Practice Statement: Provision of explanatory information on accounting policies (published on February 12, 2021, and effective for annual periods beginning on or after January 1, 2023).
- Changes to SNK 8: Definition of Accounting Estimates (published on February 12, 2021, and effective for annual periods beginning on or after January 1, 2023).
- Deferred tax relating to assets and liabilities arising from a single transaction – Changes to SNK 12 (published on May 7, 2021, and effective for annual periods beginning on or after January 1, 2023).
- Changes to SNK 12 Income Taxes: International Tax Reform – Pillar Two Model Rules (published on May 23, 2023).

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

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

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

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

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

5. Financial risk management

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Credit risk

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

5. Financial risk management (continued)
Credit risk (continued)

The following table shows the maximum credit exposure at their net amount:

	31 December 2023	31 December 2022
Cash and balances with Central Bank	10,191,805	7,521,155
Loans and advances to banks and other financial institutions	4,024,763	3,345,103
Loans and advances to customers:		
Business Trade	9,836,846	10,435,886
Business Production	7,056,935	7,113,037
Business Agriculture	551,439	844,975
Business Transport	555,806	487,158
Business Other	5,963,568	6,098,746
Private Housing	2,481,959	2,420,705
Private Investment	98,105	128,225
Private Other	268,538	167,185
	26,813,196	**27,695,917**

	31 December 2023	31 December 2022
Investment securities measured at AC	2,871,917	1,833,348
Other financial assets	177,566	261,793
Total	**3,049,483**	**2,095,141**
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	2,586,852	2,172,203
Financial guarantees and Letters of Credit	1,122,668	1,356,364
Total	**3,709,520**	**3,528,567**

Off balance sheet	31 December 2023	31 December 2022
Credit commitments	2,586,852	2,172,203
Financial guarantees	1,120,524	1,356,364
Letters of Credit	2,144	-
Provisions recognised as liabilities	(12,160)	(13,909)
Total	**3,697,360**	**3,514,658**

Credit default risk from customers' credit exposures

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

5. Financial risk management (continued)

Credit default risk from customers' credit exposures (continued)

As a general principle, the Bank considers it very important to ensure that our lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities. Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the above lending principles, the results of follow up on early warning indicators and appropriate monitoring, in particular of our individually significant credit exposures. This is a crucial element of our strategy for managing arrears in the current difficult economic environment that is affecting our clients.

The Bank rigorously follows up on the non-repayment of our credit exposures, which typically allows for swift identification of any increased potential for default on a credit exposure. The Bank applies strict rules regarding credit exposures for which there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank`s recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background. The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate that our loan portfolio exhibits. The quality of the loan portfolio is monitored on an ongoing basis. The bank uses internal early warning indicators to identify any potential increase in credit risk. A significant increase in credit risk is detected typically during the client's financial analysis/ monitoring or by detecting any ad-hoc events that indicate increase in risk. Both trigger an update of client's Risk Classification. On the other hand, past due information is considered since the stages comprise all the exposures exceeding 30 days past due. This approach implies the comprehensive analysis of various information sources including comprehensive analysis of borrowers' financial stance, past due information, data on the restructuring events and future macroeconomic prospects.

Expected credit loss (ECL) measurement

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions, and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach - As with all of our debt instruments, loans and advances to customers are also broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

Stage 1 comprises exposures for which credit risk has not significantly increased since initial recognition and for which there is no indication of a trigger for allocation to Stage 2 or Stage 3; this also includes exposures which have been re-assigned to Stage 1 from other stages or that have low credit risk at the reporting date. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures, one-year expected credit losses are recognised in the profit or loss and a loss allowance is established. One-year expected losses refer to the expected credit losses that result from default events possible within 12 months after the reporting date. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.

Stage 2 comprises exposures for which credit risk has significantly increased since initial recognition, but for which there are no objective indications of impairment, this also includes exposures which have been assigned to Stage 2 from Stage 3. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

Stage 3 includes exposures that have objective evidence of impairment at the reporting date. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default. Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

5. Financial risk management (continued)

Expected credit loss (ECL) measurement (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year. The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

Significant increase in credit risk (SICR)

Quantitative and qualitative information is used to determine whether there is a significant increase in credit risk. The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over that remaining time period at initial recognition. A significant increase in credit risk is deemed to exists if the difference between these two PDs exceeds a factor of 2.5. This limit is set by the Management Board, based on an analysis of historical data on the risk characteristics of the loan portfolio. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk is no longer significantly elevated.

In addition, qualitative criteria are used for SICR decisions. A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days.
- Classification of the loan as "restructured" (forbearance) pursuant to internal policies (adjustment of contractually agreed conditions).
- Classification of the loan in risk classes 6 or 7, which are associated with an increase in credit risk.
- Recognition of a possible increase in credit risk based on information from the early warning system.

A return from Stage 2 to Stage 1 occurs when no overdue payments are outstanding for more than 30 days and no other Stage 2 criteria are met. Forborne exposures are subject to an additional two-year probationary period during which no payments due may be outstanding for more than 30 days. The period begins with the restructuring of the contract. If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the bank monitors whether that indicator continues to exist or has changed. The bank discusses on monthly basis, through the asset quality indicators committee, all cases identified with SICR and based on the monitoring feedback and existence of indicators decides the proper classification of the exposures.

Risk Classification System

The risk classification system is based on many years of experience in working with small and medium clients and broad knowledge of the reasons for default. The risk classification system consists of the qualitative and quantitative characteristics of each client, which are weighted according to their importance and impact on the business activity, and consequently the performance of the credit exposure. As a result, a final score is calculated for each client ranging from 1 to 8, where 6 and 7 are considered as SICR events and 8 implies the highest degree of risk.

5. Financial risk management (continued)

Risk Classification System (continued)

The Bank defines credit default risk from customers' credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customers' credit exposures is based on a thorough implementation of the bank's lending principles:

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

The country-specific PDs are assigned to the scale for internal risk classification. This results in a breakdown of the loan portfolio into the presented PD intervals. In this context, the risk classes may overlap due to the different risk environments of the individual banks in terms of their assigned PDs. Exposures assigned to risk classes 6 and 7 correspond to the underperforming category and are considered to have higher risk. The risk classifications are assigned according to an internal evaluation process for the current repayment capacity of the credit exposure, based on quantitative as well as qualitative factors. The Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

Impaired credit exposures

If a credit exposure is deemed to be impaired, it is transferred to Stage 3 accordingly. The definition of impairment according to IFRS 9 corresponds to the definition used for the Defaulted portfolio in internal risk management, and also to the regulatory definition of default. This default definition is applied to all exposures which are part of the loan portfolio of the bank. The bank considers an exposure to be impaired if at least one of the default definition criteria is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When establishing Stage 3 loss allowances, a distinction is drawn between individually significant and individually insignificant credit exposures. For indications of impairment of significant exposures, an individual assessment is performed to determine loss allowances, taking account for probability-weighted expected inflows in various scenarios, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk with the ECL model.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. Unrestructured loans can be reclassify no sooner than three months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. Restructured loans can be reclassify no sooner than 12 months after they are assigned to Stage 3 and a determination is made that repayment ability has improved. No migration between stages is possible for POCI exposures. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses. In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment.

5. Financial risk management (continued)

Calculation of Expected Credit Loss

These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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

Exposure at default (EAD)

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

Probability of default (PD)

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

Loss Given Default (LGD)

The LGD reflects the expected extent of the loss from a defaulted credit exposure. The figure comprises the probability of recovery from the default and the estimated recovery rates for both scenarios (recovery/non-recovery). The recovery rates are calculated from the discounted cash flows based on historical data on funds received from defaulted customers and on the realisation of collateral and guarantees. The estimated probabilities and recovery rates are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The multi-stage selection process for relevant macroeconomic factors, which address various dimensions of the economic environment (economic performance, inflation, unemployment, interest rate environment, currency strength, energy prices), is based on professional discretion, their statistical significance and economic relevance. Publications of the International Monetary Fund (IMF) are used as data sources for the historical data and forecasts of the following relevant macroeconomic factors: GDP, inflation, unemployment rate, lending rate, purchasing power parity, gas and oil price index.

In order to establish the ECL parameters, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors. The calculation of loss allowances is automated and parameter-based for exposures in Stage 1 and Stage 2 as well as individually insignificant Stage 3 exposures. Loss allowances for individually significant Stage 3 exposures are estimated by credit analysts. The current macroeconomic forecasts from the IMF World Economic Outlook Database are used in establishing loss allowances. The parameters are calculated by weighting the three scenarios (baseline/downside/upside), with the baseline scenario normally weighted at 50% and the alternative scenarios at 25%. The stronger weighting of the downside scenario as of the reporting date is intended to reflect the currently tense overall economic situation. A detailed description can be found in the section on overlays. The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)

Calculation of Expected Credit Loss

The calculation of the loss given default (LGD) was adjusted in the first half of 2023. Estimates for LGDs have been based on cash flows, using historical data about payments received from defaulted customers, taking into account the cost of recovery and the size of the credit exposure. The new elements of the LGD calculation provide a granular estimate of the loss given default, incorporating the probability of a return to non-default status and of the realisation of available collateral and utilisation of guarantees. The parameters are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment. The results of back testing the ECL measurement methodology are communicated to Bank's Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk

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

Foreign currency risk

Foreign currency risk specifies the risk of negative effects on an institution's financial results caused by changes in exchange rates, which are: 1. Currency risk of the Bank's income statement; 2. Currency risk of the capital adequacy; 3. Foreign currency investment risk (not applicable for the Bank). As a matter of principle, the Bank does not engage in proprietary trading and does not enter speculative positions on foreign exchange markets for the purpose of generating potential additional income. Therefore, the Bank is a non-trading book credit institution. The Bank aims to close currency positions and ensures that an open currency position remains within the conservative limits at all times.

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

	2023	**2022**
USD	93.94	107.05
EUR	103.88	114.23
GBP	119.47	128.92
CHF	112.1	116.13
CNY	13.21	15.44

5. Financial risk management (continued)
Foreign currency risk (continued)

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2023 and 2022, translated into Lek'000.

31 December 2023	**LEK**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and balances with Central Bank	1,859,452	8,004,427	327,926	-	**10,191,805**
Loans and advances to banks	450,128	2,634,558	931,953	8,124	**4,024,763**
Securities measured at amortised cost (AC)	2,871,917	-	-	-	**2,871,917**
Loans and advances to customers	12,812,089	13,787,408	213,699	-	**26,813,196**
Other financial assets	30,550	129,925	17,091	-	**177,566**
Total Financial Assets	**18,024,136**	**24,556,318**	**1,490,669**	**8,124**	**44,079,247**
Open forward position (asset)	-	51,940	86,648	-	**138,588**
Liabilities					
Liabilities to banks	-	2,784,221	-	-	**2,784,221**
Liabilities to customers	13,479,543	17,365,436	1,564,623	5,936	**32,415,538**
Other borrowed funds	-	3,412,262	-	-	**3,412,262**
Other financial liabilities	247,162	247,663	16,557	18	**511,400**
Subordinated debt	-	749,186	-	-	**749,186**
Total Financial Liabilities	**13,726,705**	**24,558,768**	**1,581,180**	**5,954**	**39,872,607**
Open forward position (liability)	51,900	86,220	-	-	**138,120**
Net on-balance sheet currency position	**4,245,531**	**(36,730)**	**(3,863)**	**2,170**	**4,207,108**

Off-balance sheet commitments and guarantees					
Credit commitments	870,351	1,589,476	127,025	-	**2,586,852**
Off balance sheet - letters of credit	-	-	2,144	-	**2,144**
Off balance sheet - bank guarantees	471,493	592,667	56,364	-	**1,120,524**
Total credit related commitments	**1,341,844**	**2,182,143**	**185,533**	**-**	**3,709,520**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)
Foreign currency risk (continued)

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

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

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank, given its present currency risk exposure. The calculation of such impact based on 31 December 2023 data and 31 December 2022 (under a standard scenario) is presented below:

			Effect on profit or loss	
Currency	**Historical shocks 2023**	**Historical shocks 2022**	**31 December 2023**	**31 December 2022**
EUR	1.93%	+2.27%	(2,039)	(4,540)
USD	4.68%	-4.58%	(206)	275
Total			**(2,245)**	**(4,265)**

5. Financial risk management (continued)
Foreign currency risk (continued)

Exchange rate shock is determined as follows:

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

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

Interest rate risk

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

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

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

Both analyses are performed using an instant shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts, which is done for all interest rate risk relevant currencies. Only by assessing both perspectives (i.e. the long and the short term) simultaneously, it is possible to determine the full scope of the interest rate risk exposure. Moreover, besides the EUR or USD interest rates frequently used as benchmarks, other market-relevant interest rates are also used. Considering Lek, EUR and USD denominated asset and liability structures as at 31 December 2023 and 2022, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest risk rate (continued)

LEK Interest Sensitivity Gap At 31 December 2023		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand			-	-	-	-	-	-	1,709,281
Balances with Central Banks		8,438,138	-	-	-	-	-	8,438,138	44,386
Current accounts with banks		2,765,732	-	-	-	-	-	2,765,732	572,359
T-bills and marketable securities	Fixed	1,642,755	706,876	372,833	175,476	-	-	2,897,940	(16,689)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		1,167,423	-	-	-	-	-	1,167,423	-
Loans and advances to customers	Fixed	830,703	3,424,274	4,194,932	551,173	418,142	68,145	9,487,369	-
	Var.	1,894,634	7,730,544	8,755,201	225,408	336,908	198,478	19,141,173	-
Off balance sheet items		295,956	1,157,179	1,125,500	-	-	-	2,578,635	-
Other financial assets		138,588						138,588	-
		-	-	-	-	-	-	-	-
Total assets		**17,173,929**	**13,018,873**	**14,448,466**	**952,057**	**755,050**	**266,623**	**46,614,998**	**2,309,337**
Liabilities									
Current accounts from banks		-	2,808,678	645,264	531,367	19,172	-	4,004,481	-
Current accounts from customers		557,689	1,869,467	4,297,544	2,273,208	31,654	-	9,029,562	12,912,687
Deposits from customers		1,173,622	1,739,337	5,318,617	1,733,303	784,162	90,119	10,839,160	-
Borrowings and subordinated debt	Fixed			-	-	-	-		-
	Var.	376,501	2,778,093	48,772	43,122	113,463	14,857	3,374,808	-
Off balance sheet items			-	-	-	-	-	-	-
Other financial liabilities		138,120	-	-	-	-	-	138,120	-
Total liabilities		**2,245,932**	**9,195,575**	**10,310,197**	**4,581,000**	**948,451**	**104,976**	**27,386,131**	**12,912,687**
IR sensitivity gap- open position		**14,927,997**	**3,823,298**	**4,138,269**	**(3,628,943)**	**(193,401)**	**161,647**	**19,228,867**	**-**

EUR Interest Sensitivity Gap At 31 December 2023		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	509,439
Balances with Central Banks		7,494,988	-	-	-	-	-	7,494,988	-
Current accounts with banks		1,833,781	-	-	-	-	-	1,833,781	572,359
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		717,187	-	-	-	-	-	717,187	-
Loans and advances to customers	Fixed	369,890	1,417,875	2,060,764	282,781	158,693	33,673	4,323,676	-
	Var.	1,195,112	4,619,260	4,223,368	128,927	191,963	121,410	10,480,040	-
Off balance sheet items		264,732	631,333	689,076	-	-	-	1,585,141	-
Other financial assets		51,940	-	-	-	-	-	51,940	-
Total assets		**11,927,630**	**6,668,468**	**6,973,208**	**411,708**	**350,656**	**155,083**	**26,486,753**	**1,081,798**
Liabilities									
Current accounts from banks		-	2,808,678	645,264	531,367	19,172	-	4,004,481	-
Current accounts from customers		379,589	1,272,417	2,925,033	1,525,680	-	-	6,102,719	7,123,950
Deposits from customers		475,277	606,525	2,334,885	551,097	306,421	31,434	4,305,639	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	376,501	2,778,093	48,772	43,122	113,463	14,857	3,374,808	-
Off balance sheet items		-	-	-	-	-	-	-	-
Other financial liabilities		86,220	-	-	-	-	-	86,220	-
Total liabilities		**1,317,587**	**7,465,713**	**5,953,954**	**2,651,266**	**439,056**	**46,291**	**17,873,867**	**7,123,950**
IR sensitivity gap- open position		**10,610,043**	**(797,245)**	**1,019,254**	**(2,239,558)**	**(88,400)**	**108,792**	**8,612,886**	**-**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)
Interest risk rate (continued)

USD Interest Sensitivity Gap At 31 December 2023		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	91,592
Balances with Central Banks		191,948	-	-	-	-	-	191,948	44,386
Current accounts with banks		931,951	-	-	-	-	-	931,951	-
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	489	20,490	5,441	-	-	-	26,420	-
	Var.	11,328	174,226	6,910	1,368	2,140	205	196,177	-
Off balance sheet items		-	125,726	1,144	-	-	-	126,870	-
Other financial assets		86,648	-	-	-	-	-	86,648	-
Total assets		**1,222,364**	**320,442**	**13,495**	**1,368**	**2,140**	**205**	**1,560,014**	**135,978**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	-
Current accounts from customers		7,861	26,394	60,687	63,288	31,654	-	189,884	625,229
Deposits from customers		217,235	70,364	360,180	98,605	17,733	-	764,117	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Off balance sheet items		-		-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**225,096**	**96,758**	**420,867**	**161,893**	**49,387**	**-**	**954,001**	**625,229**
IR sensitivity gap- open position		**997,268**	**223,684**	**(407,372)**	**(160,525)**	**(47,247)**	**205**	**606,013**	**-**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)
Interest risk rate (continued)

EUR Interest Sensitivity Gap At 31 December 2022		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	No interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	512,897
Balances with Central Banks		4,202,597	-	-	-	-	-	4,202,597	-
Current accounts with banks		2,295,681	-	-	-	-	-	2,295,681	90,890
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	409,300	1,702,443	2,900,338	778,862	283,889	23,027	6,097,859	-
	Var.	1,396,037	4,351,953	4,457,015	195,536	311,983	187,530	10,900,054	-
Off balance sheet items		41,819	648,693	791,581				1,482,093	-
Other financial assets		-	-	-	-	-	-	-	-
Total assets		**8,345,434**	**6,703,089**	**8,148,934**	**974,398**	**595,872**	**210,557**	**24,978,284**	**603,787**
Liabilities									
Current accounts from banks		-	2,924,719	1,239,416	67,151	569,813	-	4,801,099	-
Current accounts from customers		284,665	885,755	2,036,174	1,062,056	-	-	4,268,650	6,731,362
Deposits from customers		195,130	514,119	1,740,962	349,628	175,399	106,824	3,082,062	-
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-
	Var.	909,609	3,786,756	-	-	-	-	4,696,365	-
Off balance sheet items		-	-	-	-	-	-	-	-
Other financial liabilities		-	-	-	-	-	-	-	-
Total liabilities		**1,389,404**	**8,111,349**	**5,016,552**	**1,478,835**	**745,212**	**106,824**	**16,848,176**	**6,731,362**
IR sensitivity gap- open position		**6,956,030**	**(1,408,260)**	**3,132,382**	**(504,437)**	**(149,340)**	**103,733**	**8,130,108**	**-**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)

Interest risk rate (continued)

The table below summarizes the effects based on the internal analyses and implemented methodology for quantification of interest rate risk. The analysis and calculations are done to quantify the effect of the interest rates movements on economic value and interest earnings over a 12-month time horizon, and consequently to analyse and mitigate related risks, by improving the repricing structure, when this is possible. Considering EUR and USD denominated asset and liability structures as at 31 December 2023 and 2022, and assuming a parallel shift of interest rate for +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, based on interest earnings effects, where negative figures represent possible losses and decrease of net equity.

Estimated economic value effect	**2023**		**2022**	
	+200 bp	**-200 bp**	**+200 bp**	**-200 bp**
Change Lek market rates	(41,100)	41,375	(31,524)	32,026
Change EUR market rates	59,556	(60,875)	(33,742)	36,727
Change USD market rates	13,274	(13,771)	9,409	(9,825)
Total effect (netted)	31,729	(33,270)	(55,857)	58,928
As % of capital	0.6%	-0.7%	-1.15%	1.21%

Liquidity risk

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

To mitigate liquidity and funding risk, the Bank diversifies funding sources and manages the assets with liquidity caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls. The Bank aims to keep the expected cumulative maturity gap positive, for at least a period of 90 days (survival period at 90 days, being a limit for the standard scenario and trigger for extended stress scenario, as defined in the Liquidity Management Policy). As for December 2023, the survival period of the Bank for all currencies in total is calculated above 360 days.

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

5. Financial risk management (continued)
Liquidity risk (continued)

31 December 2023	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	10,191,805	-	-	-	-	**10,191,805**
Investment securities measured at AC	1,098,744	981,425	488,803	302,944	-	**2,871,917**
Loans and advances to customers	581,354	4,833,704	6,656,053	10,080,039	4,662,046	**26,813,196**
Other financial assets	177,566	-	-	-	-	**177,566**
Total	**12,049,469**	**5,815,129**	**7,144,856**	**10,382,983**	**4,662,046**	**40,054,484**
Liabilities						
Liabilities to banks	-	1,934,674	849,547	-	-	**2,784,221**
Customer accounts – Private	8,269,748	1,605,663	3,128,932	3,832,113	3,991	**16,840,446**
Customer accounts – Business	14,211,042	198,822	433,829	731,399	-	**15,575,092**
Other borrowed funds	-	282,619	211,470	2,823,737	94,436	**3,412,262**
Subordinated debt	-	22,026	-	-	727,160	**749,186**
Gross loan commitments	2,586,852	-	-	-	-	**2,586,852**
Financial guarantees	1,122,668	-	-	-	-	**1,122,668**
Other financial liabilities	511,400	-	-	-	-	**511,400**
Total potential future payments for financial obligations	**26,701,710**	**4,043,804**	**4,623,778**	**7,387,249**	**825,587**	**43,582,127**
Liquidity gap arising from financial instruments	**(14,652,241)**	**1,771,325**	**2,521,078**	**2,995,734**	**3,836,459**	**(3,527,643)**

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

5. Financial risk management (continued)

Liquidity risk (continued)

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

Following the above, i.e. the current and saving deposits are classified as due on demand and maturing within one month, based on their contractual maturity. As a result, the contractual liquidity gap of up to twelve months results negative. However, the possibility that such large amounts of customer deposits, amounting to approx. 62% of total deposits, will leave the Bank within 1 month or even 12 months period is very unlikely and not historically evidenced, including times of crises. Following the LRM Model, current and savings accounts are distributed in different time buckets, by applying different outflows rates, as resulted from the related historical analyses over a period of more than 10 years (including the 2008 financial crises) and by covering as well potential risks related to deposits concentration (dependency from large depositors). Following this the applicable 1 month outflow rates vary from 13.8%, to 16.3% and 19.3%, respectively for standard and stress scenarios, being higher than any historical evidence. In any event that these are not sufficient, or increased concentration risk is assessed, the Bank has to adjust / increase these rates accordingly and still is required to comply with the related limits.

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

6. Management of capital

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

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

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by Bank of Albania, for supervisory purposes. The required information is filed with Bank of Albania on a quarterly basis. Bank of Albania requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of 1 billion Lek and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel II ratio') at or above minimum of 12%.. In addition, the bank ensures to fulfil at any times additional capital requirements, as resulted by the local ICAAP reported to the Central Bank, as well as applicable macro-prudential buffers, as defined in the related regulation and Governor Decisions.

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

6. Management of capital (continued)

Regulatory capital is the Bank's capital, calculated pursuant to the requirements of the Bank of Albania regulations to cover credit risk, market risk and operational risk. The Bank's regulatory capital is divided into two tiers. The Bank calculates the regulatory capital as the sum of Tier 1 capital and Tier 2 capital, considering the deductions pursuant to the requirements prescribed in the Bank of Albania regulations. The Banks calculates risk-weighted exposures as the sum of the following elements:

- Items of exposures and possible exposures weighted for the credit, or counterparty risk;
- Capital requirements for market risks; and
- 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 2023 and 2022. During these two years, the Bank complied with all of the externally imposed capital requirements. Should be noted that the following amounts are based on Bank of Albania regulations and do not necessarily agree to the amounts shown in these financial statements

Tier 1 capital	**2023**	**2022**
Share capital	5,711,469	5,711,469
Statutory reserve	717,165	711,854
Translation exposure	-	-
Statutory accumulated (losses)/profits	(2,218,283)	(2,212,972)
Statutory intangible assets	(4,806)	(6,218)
Total qualifying Tier 1 capital	**4,205,545**	**4,204,133**
Tier 2 capital		
Subordinated liability	750,345	816,521
Other deductions	-	-
Total qualifying Tier 2 capital	**750,345**	**816,521**
Total regulatory capital	**4,955,890**	**5,020,654**
Total risk-weighted assets	**23,622,500**	**29,656,478**
Risk-weighted assets:		
On-balance sheet	20,135,972	26,046,018
Off-balance sheet	1,111,255	1,507,817
Risk assets for operational risk	2,375,273	2,102,643
Risk assets for market risk	-	-
Total risk-weighted assets	**23,622,500**	**29,656,478**
Tier I capital adequacy ratio	**17.80%**	**14.18%**
Total capital adequacy ratio	**20.98%**	**16.93%**

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

ICAAP – Economic perspective

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

6. Management of capital (continued)

ICAAP – Economic perspective (continued)

For each risk category, the economic capital required to cover the current level of risk arising in a normal operating environment (standard scenario) is calculated on a monthly basis. Economic capital requirements are then compared with the resources available to cover risk.

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

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

7. Fair values of financial instruments

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

7. Fair values of financial instruments (continued)

(a) Valuation models

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

Level 1 inputs:

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

Level 2 Inputs:

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

Level 3 Inputs:

Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. If observable market rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates are determined taking into consideration the cost of funds depending on currencies and maturities plus a risk margin. Internal rates are regularly compared to those applied for third party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

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

				Fair value hierarchy		
As of 31 December 2023	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	10,191,805	10,191,805	-	10,191,805	-
Loans and advances to banks	AC	4,024,763	4,024,763	-	4,024,763	-
Loans and advances to customers	AC	26,813,196	26,692,011	-	-	26,692,011
Investment securities	AC	2,871,917	2,872,988	-	2,872,988	-
Other assets (shares)	FVOCI	165	165	-	165	-
Other financial assets	AC	177,566	177,566	-	177,566	-
Total		**44,079,412**	**43,959,298**	**-**	**17,267,287**	**26,692,011**
Financial Liabilities						
Liabilities to banks	AC	2,784,221	2,784,221	-	2,784,221	-
Liabilities to Customers	AC	32,415,538	32,298,744	-	21,576,376	10,722,368
Borrowings	AC	3,412,262	3,303,210	-	521,176	2,782,034
Subordinated debts	AC	749,186	749,186	-	749,186	-
Other financial liabilities	AC	511,400	511,400	-	511,400	-
Total		**39,872,607**	**39,646,761**	**-**	**26,142,359**	**13,504,402**

7. Fair values of financial instruments (continued)

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

Categories: AC - Amortised cost;

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and prepayment rates. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.
The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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

8. Presentation of Financial Instruments by Measurement Category

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

Under IFRS 9 fair value changes are generally presented as follows:

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

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8. Presentation of Financial Instruments by Measurement Category (continued)

As at 31 December 2023	FVOCI	AC	Total
Cash and current accounts with banks	-	10,191,805	10,191,805
Loans and advances to banks	-	4,024,763	4,024,763
Other financial assets	-	177,566	177,566
Loans to Business	**-**	**23,964,594**	**23,964,594**
Loans to customers	-	18,237,492	18,237,492
Overdrafts	-	5,727,102	5,727,102
Loans to Private	**-**	**2,848,602**	**2,848,602**
Loans to customers	-	2,796,035	2,796,035
Overdrafts	-	45,419	45,419
Credit Cards	-	7,148	7,148
Total loans and advances to customers	**-**	**26,813,196**	**26,813,196**
Investment securities	**-**	**2,871,917**	**2,871,917**
Albanian Government Treasury Bills	-	2,568,973	2,568,973
Albanian Government Bonds	**-**	**302,944**	**302,944**
Total Financial Assets	**-**	**44,079,247**	**44,079,247**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

9. Net interest income

	2023	2022
Interest income from		
Loans and advances to customers	1,500,145	1,217,042
Investment securities measured at AC	116,886	29,215
Loans and advances to financial institutions	135,111	15,398
Other interest income	5,369	11,557
Total interest income	**1,757,511**	**1,273,212**
Interest expense on		
Liabilities to customers	234,579	138,027
Interest expenses on subordinated debts	61,262	40,944
Interest expenses on financial institutions	271,416	71,228
Other	3,928	48,413
Total interest expense	**571,185**	**298,612**
Net interest income	**1,186,326**	**974,600**

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

10. Loss allowance

	2023	2022
Change in loss allowances	129,643	(74,363)
Recovery of written-off loans	61,416	113,887
Total	**191,059**	**39,524**

11. Net fee and commission income

Fees and commissions income were comprised as follows:

Fee and commission income from:	**2023**	**2022**
Payment services	100,569	95,101
Debit/credit cards	45,327	35,721
Account maintenance	123,666	136,458
Letters of credit and guarantees	15,922	17,330
Others	1,014	624
Total	**286,498**	**285,234**

Fee and commission expenses on:		
Payment services	56,180	51,655
Debit/credit cards	73,410	67,424
Account maintenance	12,705	10,309
Letters of credit and guarantees	21,216	16,934
Others	17	356
Total	**163,528**	**146,678**
Net fee and commission income	**122,970**	**138,556**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

12. Net other operating result

Other operating income from:	**2023**	**2022**
Reversal of provision not related to lending	4,819	6,001
Reimbursement of expenses	-	746
Sale of repossessed properties	29,562	54,102
Sale of property, plant and equipment	-	29,267
Rental of investment properties	-	66
Others	12,287	25,486
Total	**46,668**	**115,668**

Other operating expenses for:		
Deposit insurance	46,669	47,123
Disposal of property, plant and equipment	507	3,207
Impairment of repossessed properties	30,530	1,916
Impairment on claims to customers	14,734	9,120
Expenses for banking supervision	19,482	16,453
Litigation settlements	2,979	-
Others	16,850	23,756
Total	**131,751**	**101,575**
Net other operating result	**(85,083)**	**14,093**

13. Administrative Expenses

	2023	**2022**
IT, Maintenance and repairs	318,853	296,705
Consultancy, legal fees and other services	108,481	106,362
Depreciation of property, plant and equipment	91,148	72,119
Security services	81,586	71,074
Marketing, advertising and representation	52,292	57,573
Telephone and electricity	51,471	47,320
Transport	22,119	17,246
Training	20,533	27,604
Insurance	11,770	8,864
Office supplies	9,692	5,005
Lease expenses	4,690	10,471
Amortization of intangible assets	1,658	2,541
Other expenses	143,590	120,038
Total	**917,883**	**842,922**

Other expenses are comprised mainly from reverse charge expenses Lek 95,377 (2022: Lek 102,308), withholding tax expenses Lek 8,307 (2022: Lek 4,249), municipal tax expenses Lek 4,151 (2022: Lek 5,705) and membership fee expenses Lek 1,482 (2022: Lek 1,483).

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

14. Personnel expenses

Personnel expenses were comprised as follows:

	2023	2022
Salary expenses	348,562	275,148
Social insurance	34,561	24,648
Public defined contribution plan	14,812	10,564
Other	405	131
Total	**398,340**	**310,491**

At 31 December 2023, the Bank had 182 employees (31 December 2022: 149 employees).

15. Income tax

(a) Amounts recognised in profit or loss

	2023	2022
Current tax	51,846	31,114
Deferred tax (benefit)/expenses	1,024	-
Income tax expense	**52,870**	**31,114**

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% (2022: 15%).

(b) Reconciliation of the effective tax rate

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

	2023	2022
Profit / (Loss) before tax	226,635	137,327
Theoretical charge /(credit) tax calculated at 15% (2022:15%)	33,995	20,599
Non-taxable income	(1,115)	-
Non-deductible expenses	19,990	10,515
Income tax expense	**52,870**	**31,114**

16. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2023	2022
Cash on hand	1,709,280	1,634,852
Current account with Central Bank of Albania	5,197,782	3,267,541
	6,907,062	**4,902,393**
Compulsory reserve with Central Bank of Albania	3,292,367	2,624,361
Allowance for impairment losses	(7,624)	(5,599)
Total	**10,191,805**	**7,521,155**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

16. Cash and balances with Central Bank (continued)

Cash and cash equivalents at 31 December 2023 and 2022 are presented below:

	2023	2022
Cash and balances with Central bank	6,907,062	4,902,393
Loans and advances to financial institutions with maturities of three months or less	4,024,786	3,345,103
Monetary values in transit	-	802
Total	**10,931,848**	**8,248,297**

Cash and balances with central banks

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

31 December 2023	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		5,197,782	-	5,197,782
- Compulsory reserve		3,292,367	-	3,292,367
- Government securities			2,080,524	2,080,524
Total cash and balances with central banks		**8,490,149**	**2,080,524**	**10,570,673**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

17. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2023	2022
Deposits with resident banks with original maturities of three months or less	450,129	110,012
Deposits with non-resident banks with original maturities of three months or less	3,574,634	3,235,091
Total	**4,024,763**	**3,345,103**

Interbank exposures are closely monitored on a daily basis by Risk Management Department and Treasury Unit. The Bank limits its deposits and other banking transactions to sound local or international banks. Before a business relationship is initiated with a given bank, the management and the Risk Management Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's. A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

18. Loans and advances to customers

	2023	2022
Loans to customers	21,610,935	21,674,691
Overdrafts	5,812,174	7,014,711
Credit Cards	7,565	3,218
Accrued interest	116,632	99,526
	27,547,306	**28,792,146**
Credit loss allowance	(734,110)	(1,096,229)
	26,813,196	**27,695,917**

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

	2023	2022
At 1 January	1,096,229	1,189,637
Credit loss allowance for the year	(105,974)	112,151
Loans written off	(201,644)	(148,702)
Translation impact	(54,501)	(56,857)
Total	**734,110**	**1,096,229**

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

	2023	2022
Loans in Lek	2.00% to 12.00%	2.50% to 10.00%
Loans in Euro	1.50% to 9.29%	1.00% to 10.00%
Loans in USD	6.47% to 7.47%	4.50% to 6.16%

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

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

	31 December 2023		31 December 2022	
	Loans and advances	**ECL**	**Loans and advances**	**ECL**
Stage 1 and 2				
Arrears 0-7 days	26,518,518	(277,918)	27,725,730	(433,126)
Arrears 8-30 days	374,479	(4,980)	246,455	(23,294)
Arrears 31-90 days	60,819	(4,909)	1,641	(237)
Stage 3	593,490	(446,303)	818,320	(639,572)
	27,547,306	**(734,110)**	**28,792,146**	**(1,096,229)**

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

31 December 2023	**Business**	**Private**	**Total**
Total gross amount	24,584,092	2,963,214	27,547,306
Credit loss allowance (individual and collective)	(619,498)	(114,612)	(734,110)
Net carrying amount	**23,964,594**	**2,848,602**	**26,813,196**

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

31 December 2023	**Business**	**Private**
Stage 1	23,454,164	2,766,082
Stage 2 (SICR)	571,820	161,750
Stage 3 (Default)	558,108	35,382
Gross	**24,584,092**	**2,963,214**
Less: credit loss allowance	(619,498)	(114,612)
Net carrying amount	**23,964,594**	**2,848,602**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	31 December 2023			31 December 2022		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Business						
Loans	18,798,617	(561,125)	18,237,492	18,917,772	(804,955)	18,112,817
Overdrafts	5,785,475	(58,373)	5,727,102	7,005,066	(138,081)	6,866,985
Private						
Loans	2,907,120	(111,085)	2,796,035	2,829,598	(150,376)	2,679,222
Overdrafts	48,529	(3,110)	45,419	36,489	(2,602)	33,887
Credit Cards	7,565	(417)	7,148	3,221	(215)	3,006
Total loans and advances to customers at AC	**27,547,306**	**(734,110)**	**26,813,196**	**28,792,146**	**(1,096,229)**	**27,695,917**

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

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	**27,515,960**	**457,867**	**817,226**	**1,094**	**28,792,146**
New financial assets originated	16,128,396	-	-	-	16,128,396
Modification of contractual cash flows of financial assets	401	-	(239)	-	162
Derecognitions	(8,967,307)	(412,380)	(34,967)	-	(9,414,654)
Write-offs	-	-	(201,644)	-	(201,644)
Changes in interest accrual	23,774	1,087	37,945	(5)	62,801
Changes in the principal and disbursement fee amount	(6,077,600)	(168,745)	(65,956)	(274)	(6,312,575)
Transfers to Stage 1	(1,253,208)	1,250,509	2,699	-	-
Transfers to Stage 2	288,559	(379,231)	90,672	-	-
Transfers to Stage 3	2,699	2,409	(5,108)	-	-
Foreign exchange and other movements	(1,441,428)	(17,946)	(48,077)	124	(1,507,327)
Gross outstanding amount as of 31 December 2023	**26,220,246**	**733,570**	**592,551**	**939**	**27,547,306**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	**(354,641)**	**(102,015)**	**(638,790)**	**(783)**	**(1,096,229)**
New financial assets originated	(131,834)	-	-	-	(131,834)
Release due to derecognition	36,480	6,362	30,700	-	73,542
Transfers to Stage 1	30,208	(30,033)	(175)	-	-
Transfers to Stage 2	(2,361)	22,133	(19,772)	-	-
Transfers to Stage 3	(175)	(831)	1,006	-	-
Increase in PD/LGD/EaD	(72,848)	(46,328)	(156,220)	(240)	(275,636)
Decrease in PD/LGD/EaD	271,464	71,699	96,623	116	439,902
Usage of allowance	-	-	201,644	-	201,644
Foreign exchange and other movements	13,460	1,454	39,587	-	54,501
Loss allowances as of 31 December 2023	**(210,247)**	**(77,559)**	**(445,397)**	**(907)**	**(734,110)**

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

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans. The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2023:

31 December 2023	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business					
Performing	14,183,985	127,141	-	-	14,311,126
Performing Loan Portfolio (LP) with Early Warnings Indicators (EWI)	9,270,179	74,356	-	-	9,344,535
Underperforming	-	370,323	-	-	370,323
Default	-	-	557,169	939	558,108
Gross carrying amount	**23,454,164**	**571,820**	**557,169**	**939**	**24,584,092**
Expected Credit Loss	(135,844)	(59,705)	(423,042)	(907)	(619,498)
Carrying amount	**23,318,320**	**512,115**	**134,127**	**32**	**23,964,594**
Private					
Performing	2,404,638	130,214	-	-	2,534,852
Performing LP with EWI	358,809	15,003	-	-	373,812
Underperforming	2,635	16,533	-	-	19,168
Default	-	-	35,382	-	35,382
Gross carrying amount	**2,766,082**	**161,750**	**35,382**	**-**	**2,963,214**
Expected Credit Loss	(74,403)	(17,854)	(22,355)	-	(114,612)
Carrying amount	**2,691,679**	**143,896**	**13,027**	**-**	**2,848,602**

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2022:

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2023 is as follows:

		2023	
	Private	**Business**	**Total**
Stage 1 and Stage 2			
0 days past due	2,811,700	23,478,876	26,290,576
1 to 30 days past due	101,127	488,236	589,363
31 to 90 days past due	15,005	58,872	73,877
Total Stage 1 and Stage 2	**2,927,832**	**24,025,984**	**26,953,816**
Stage 3 collectively impaired loans			
0 days past due	12,815	25,736	38,551
1 to 30 days past due	10,350	25,200	35,550
31 to 90 days past due	3,602	17,514	21,116
over 90 days past due	7,448	78,906	86,354
Total Stage 3 Collectively impaired loans	**34,215**	**147,356**	**181,571**
Stage 3 Individually impaired loans			
0 days past due	-	939	939
1 to 30 days past due	-	-	-
31 to 90 days past due	-	-	-
over 90 days past	1,167	409,813	410,980
Total Stage 3 Individually impaired loans	**1,167**	**410,752**	**411,919**
Total loans	**2,963,214**	**24,584,092**	**27,547,306**
Expected credit losses	(114,612)	(619,498)	(734,110)
Net loans	**2,848,602**	**23,964,594**	**26,813,196**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

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

According to the Bank's policy, only short-term credit exposures may be issued uncollateralized up to a certain amount. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. For an insignificant number of financial assets, the Bank holds cash collateral.

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

Depending on the type of restructuring (standard, watch or impaired), the credit exposure may be categorized or not in a better category (risk classification) based on the performance of the exposure. The healing period for standard and watch restructured exposures is defined as 24 months and during this period, the exposure should not show additional SICR. If SICR is noted (at least 30 days in arrears) the healing period starts recounting. For impaired restructured loans the reclassification is done in two steps, first 12 months of probation period with no SICR indicators in order to classify it to Watch Restructured exposure and then 24 months of healing period to reclassify it as standard exposure. For any reclassification after the healing period is fulfilled, the bank performs full financial monitoring of the exposure in order to make sure that no signs of further deterioration is expected.

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

	2023		2022	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business Trade	-	-	75,013	(24,653)
Business Agriculture	1,928	(14)	4,323	(3,128)
Business Production	15,728	(4,278)	-	-
Business Other	20,408	(1,313)	2,407	(1,727)
Private Housing	-	-	-	-
Private Investment	-	-	1,416	(1,016)
Total	**38,064**	**(5,605)**	**83,159**	**(30,524)**

31 December 2023	**Business**	**Private**	**Total**
Loans with renegotiated terms			
Carrying amount	38,064	-	38,064
Credit loss allowance	(5,605)	-	(5,605)
Net carrying amount	**32,459**	**-**	**32,459**
Loans with renegotiated terms			**2023**
Stage 1			-
Stage 2			33,341
Stage 3			4,723
Total gross amount			**38,064**
Individual impairment			-
Collective impairment			38,064
Total gross amount			**38,064**

31 December 2022	**Business**	**Private**	**Total**
Loans with renegotiated terms			
Carrying amount	81,743	1,416	83,159
Credit loss allowance	(29,508)	(1,016)	(30,524)
Net carrying amount	**52,235**	**400**	**52,635**
Loans with renegotiated terms			**2022**
Stage 1			-
Stage 2			66,944
Stage 3			16,215
Total gross amount			**83,159**
Individual impairment			-
Collective impairment			83,159
Total gross amount			**83,159**

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Credit portfolio risk from customer lending

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

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

	2023	%	2022	%
Business Trade	9,972,531	36%	10,740,338	37%
Business Production	7,340,881	27%	7,472,680	26%
Business Other	6,022,420	23%	6,203,180	22%
Business Agriculture	576,266	2%	885,032	3%
Business Transport	671,994	2%	621,608	2%
Private Housing	2,571,687	9%	2,545,034	9%
Private Investment	106,174	0%	144,295	0%
Private Other	285,353	1%	179,979	1%
Total	**27,547,306**	**100%**	**28,792,146**	**100%**

		2023	
	Stage 1	**Stage 2**	**Stage 3**
Business Trade	9,742,657	103,165	126,710
Business Agriculture	505,225	42,001	29,039
Business Production	6,851,845	245,340	243,696
Business Transport	524,703	2,366	144,925
Business Other	5,829,734	178,948	13,738
Private Housing	2,400,944	146,575	24,167
Private Investment	93,370	6,694	6,110
Private Other	271,768	8,481	5,105
Total	**26,220,246**	**733,570**	**593,490**

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

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18. Loans and advances to customers (continued)

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2023 along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2023		2022	
	Gross outstanding amount	**Fair value of collateral**	**Gross outstanding amount**	**Fair value of collateral**
Business Trade	126,710	107,004	230,908	211,625
Business Agriculture	29,039	26,945	38,098	35,603
Business Production	243,696	78,581	288,011	122,983
Business Transport	144,925	103,729	157,891	131,046
Business Other	13,738	12,075	52,195	48,146
Private Housing	24,167	16,285	36,525	24,617
Private Other	11,215	3,350	14,691	654
Total	**593,490**	**347,969**	**818,319**	**574,674**

The fair value of collaterals disclosed above are based on the determination by local certified evaluators and represents market value realisable by the legal owners of the assets, deducted with the haircuts applied from the internal evaluators based on the bank's internal policies.
The structure of the loan portfolio is regularly reviewed in order to identify concentration risks. Events which could have an impact on large areas of the loan portfolio (common risk factors) lead, if necessary, to limits of the exposure towards certain groups of clients, e.g. according to specific sectors of the economy or geographical areas. The Bank follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the PCH Group Risk Management Committee. No single large credit exposure may exceed 25% of regulatory capital.

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

At 31 December 2023, the ten largest borrowers represent 9.04% (2022: 10.75%) of the total loans.
Individually significant credit exposures are closely monitored by the Credit Risk Committee of the Bank. For such credit exposures, the Bank performs an impairment test if the following default events are identified, i.e:

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

The impairment test also takes into consideration the realisable net value of collateral held. For the calculation of the individual impairment a discounted cash flow approach is applied. For individually significant credit exposures for which the individual impairment calculation showed that present value of expected future cash flows is higher than book, the provisioning for these exposures is defined as an absolute amount of the calculated impairment loss, applying the minimum LLP rate for Stage 1 of the respective exposure class. While calculating PDs the portfolio is segmented in different buckets as Very Small Exposures (‹EUR 50K), SME Exposures (›EUR 50K). The same distribution of exposure size is done for business portfolio and private clients portfolio. For SME Exposures the loss parameters are based on the internal risk classification system for the rated exposures. For Stage 2, the type of restructuring is measured in addition for Private Clients and Very Small Exposures of the exposure.

18. Loans and advances to customers (continued)

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

Stage 3 includes a defaulted financial assets and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of recovery and the size of the credit exposure. As stated in the IFRS 9 framework, the necessity to estimate lifetime expected losses arises in IFRS 9 Stages II and III; in Stage I, one-year expected losses are used. Details of the different approaches are given below. 12-month expected credit losses are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

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

Impairment and provisioning

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

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under ''Loss allowances''. Repayments of loans previously written off amounted to Lek 61,416 thousand in 2023 (2022: Lek 113,888 thousand).

Lending commitments and financial guarantees

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

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups and to affiliates. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other controls and mitigation measures are outlined below.

Collateral held and other credit enhancements and their financial effect

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

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

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

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2023.

	Over-collateralised assets		**Under-collateralised Assets**	
31 December 2023	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	12,384,291	12,610,022	11,580,303	5,120,061
Private	1,672,402	1,730,759	1,176,200	293,024
	14,056,693	**14,340,781**	**12,756,503**	**5,413,085**

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

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

Concentration of credit risk

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

18. Loans and advances to customers (continued)

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 2023 and 2022. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2023			2022		
	OECD countries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks		8,482,525	8,482,525	-	5,886,303	5,886,303
Loans and advances to banks	3,574,635	450,128	4,024,763	3,235,092	110,012	3,345,103
Loans and advances to customers		26,813,196	26,813,196	-	27,695,917	27,695,917
Debt securities held at Amortized Cost (AC)		2,871,917	2,871,917	-	1,833,348	1,833,348
Other financial assets		177,566	177,566	-	261,793	261,793
Total	**3,574,635**	**38,795,332**	**42,369,967**	**3,235,092**	**35,787,373**	**39,022,465**

Loans and advances to customers based on specific industry sectors at 31 December 2023 and 2022 are presented below:

	31 December			
Industry sector	**2023**	**%**	**2022**	**%**
Trade	9,869,450	37	11,678,320	42
Industry and other production	8,418,081	31	7,978,964	29
Construction	1,939,397	7	2,399,424	9
Transport	559,234	2	492,717	2
Services	3,273,129	12	1,277,771	5
Other	2,753,905	11	3,868,721	13
Total	**26,813,196**	**100**	**27,695,917**	**100**

19. Investment securities measured at amortised cost

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

	2023	2022
	Amortised Cost	**Amortised Cost**
Treasury bills at AC	2,570,082	1,834,287
Bonds	303,645	-
Loss allowance for Investment Securities AC	(1,810)	(940)
Total	**2,871,917**	**1,833,348**

The movement in investments securities is summarised as follows:

	2023	2022
At 1 January	1,833,348	1,700,596
Additions	2,873,727	1,834,287
Loss allowance for Investment Securities AC	(871)	(306)
Matured	(1,834,287)	(1,701,230)
Total	**2,871,917**	**1,833,348**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

19. Investment securities measured at amortised cost (continued)

Treasury bills

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

	2023			2022		
Issuer	**Maturity**	**Yield**	**Carrying value**	**Maturity**	**Yield**	**Carrying value**
Albanian government	12 months	3.02% - 5.35%	2,570,082	12 months	1.53% - 5.80%	1,834,287
			2,570,082			**1,834,287**

The table below contains an analysis of the credit risk exposure of debt securities measured at AC at 31 December 2023. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.77% and LGD of 30%.

Movement in impairment for the years ended December 31, 2023 and 2022, charged to profit and loss is as following:

	31-Dec-23	**31-Dec-22**
Opening balances	940	634
New financial assets originated	1,810	940
Release due to derecognition	(940)	(634)
Increase/Decrease in PD/LGD/EaD	-	-
Closing balance	**1,810**	**940**

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

Ratings at 31 December	**31-Dec-23**	**31-Dec-22**
Securities at Amortised Cost		
B+	2,873,727	1,834,287
Total	**2,873,727**	**1,834,287**

20. Other assets

	31-Dec-23	**31-Dec-22**
Current assets		
Other debtors	177,566	261,793
Other financial assets	**177,566**	**261,793**
Prepaid expenses	23,229	27,037
Inventory	3,358	1,365
Shares	165	181
Non-current assets		
Repossessed properties	-	17,120
Loss allowance	(8,750)	(14,383)
Total	**195,568**	**293,113**

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

20. Other assets (continued)

Movement in loss allowance for the years ended December 31, 2023 and 2022, charged to profit and loss is as following:

	31-Dec-23	31-Dec-22
Opening balances	14,383	21,309
Increase/Decrease in PD/LGD/EaD	(5,633)	(6,926)
Closing balance	**8,750**	**14,383**

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

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

	31-Dec-23	31-Dec-22
Balance at the beginning of the period	17,120	48,004
Additions during period	-	93,608
Disposals during the period	(2,301)	(124,491)
Write downs	(14,819)	-
Balance at the end of the period	**-**	**17,120**

21. Investment property

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

At 1 January 2023	-
Additions	-
Disposals	-
At 31 December 2023	-
Accumulated depreciation	-
Charge for the year	-
Accumulated depreciation at time of disposal	-
Impairment	-
At 31 December 2023	-

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

For the year ended 31 December 2023 (All amounts expressed in Lek'000, unless otherwise stated)

22. Property, plant and equipment

31-December-23	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition cost as of 1 January 2023	111,063	467,937	199,232	**778,232**
Additions	516	41,574	974	**43,064**
Disposals	(20,152)	(10,481)	-	**(30,633)**
Impairment				**-**
Total acquisition cost as of 31 December 2023	**91,427**	**499,030**	**200,206**	**790,663**
Accumulated depreciation as of 1 January 2023	90,854	360,913	80,440	**532,207**
Charge for the year	7,487	32,497	51,164	**91,148**
Disposals	(20,152)	(9,974)		**(30,126)**
Accumulated depreciation as of 31 December 2023	**78,189**	**383,436**	**131,604**	**593,228**
Net carrying amount	**13,238**	**115,594**	**68,602**	**197,434**

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

23. Intangible assets

At 1 January 2023	**156,688**
Additions	343
Disposals	(16,555)
Transfer	
At 31 December 2023	**140,476**
Accumulated depreciation at 1 January 2023	(150,375)
Charge for the year	(1,658)
Accumulated depreciation at time of disposal	16,458
Accumulated depreciation at 31 December 2023	(135,575)
Net book value at 31 December 2023	**4,901**

23. Intangible assets (continued)

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

24. Liabilities to banks

	2023	2022
Borrowings from resident banks	-	271,332
Borrowings from non-resident banks	2,784,221	4,086,324
Total	**2,784,221**	**4,357,656**

Borrowings from non-resident banks have maturities as at December 31, 2023 up to 5 years (2022: up to 5 years) and interest rates of 5.418%, 5.861, 5.133%, 5.183%, 4.975%, 5.234%, 5.191% for balances denominated in EUR (2022 1.152%, 1.334%, 2.361%, 2.563%, 1.222%, 1.92%, 1.686%, 1.13% and 1.16% p.a for EUR).

25. Liabilities to customers

	2023	2022
Current accounts		
Foreign currency	7,536,009	7,212,744
Local currency	4,956,844	4,131,123
Savings accounts		
Foreign currency	6,275,631	4,537,202
Local currency	2,732,078	1,743,727
Term deposits		
Foreign currency	5,068,785	3,776,743
Local currency	5,759,876	5,523,634
Other customer account		
Foreign currency	55,570	55,458
Local currency	30,745	41,484
Total	**32,415,538**	**27,022,115**

Savings accounts in Lek (FlexSave) bear interest at 0.8% p.a (2022: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2022: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2022: 0.5%).

Other customer accounts include accounts pledged by customers as cash collateral. They bear interest rates at the similar levels as the term deposits.

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25. Liabilities to customers (continued)

The interest rates applied for term deposits as of 31 December 2023 were as follows:

(in %)	12 months	24-36 months
Lek	1.00 – 2.00	1.60 - 2.50
EUR	0.30 - 1.00	0.40 - 1.50
USD	0.50 - 1.50	0.60 - 1.70

31 December 2022

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

26. Other borrowed funds

	2023	2022
Financial Institutions	2,891,086	3,328,761
ProCredit Holding Ag	521,176	573,289
Total	**3,412,262**	**3,902,050**

27. Subordinated debt

	2023	2022
ProCredit Holding Ag	727,160	799,610
Accrued interest	22,026	16,065
Total	**749,186**	**815,675**

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

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

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

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

28. Other liabilities

	2023	2022
Payments in transit	365,873	463,499
Sundry creditors	63,608	55,814
Accrued expenses	20,147	25,167
Lease liabilities	61,772	116,192
Other financial liabilities	**511,400**	**660,672**
Tax and social charges	32,005	24,165
Other provisions	52,929	33,770
Deferred fee income	54,804	11,114
Total	**651,138**	**729,721**

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 2023 and 2022 is presented below:

	Off-balance sheet items	Legal cases	Other	Total
Balance as at 1 January 2022	**20,348**	**17,556**	**7,280**	**45,184**
Provisions made during the year	(4,709)	1,026	-	**(3,683)**
Provisions reversed during the year	(1,731)	-	(6,001)	**(7,731)**
Balance as at 31 December 2022	**13,909**	**18,582**	**1,280**	**33,770**
Provisions made during the year	12,467	3,532	25,027	**41,026**
Provisions reversed during the year	(14,217)	(6,372)	(1,279)	**(21,868)**
Balance as at 31 December 2023	**12,159**	**15,742**	**25,028**	**52,929**

29. Share capital and legal reserves

At 31 December 2023, the authorised and issued share capital of the Bank was comprised of 604,851 (2022: 604,851) shares with a value of Lek 5,711,469 (2022 Lek 5,711,469). The Parent and sole shareholder of the Bank is ProCredit Holding AG (the 'Parent'), a holding company based in Frankfurt am Main, Germany.

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

Share Capital	At 1 January 2023	New shares issued	At 31 December 2023
Number of outstanding shares	604,851	-	604,851
Share capital in Lek	**5,711,469**	**-**	**5,711,469**

Legal reserves

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

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30. Commitments and contingencies

	2023	2022
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	2,586,852	2,172,203
Payment guarantees	1,120,524	1,356,364
Letters of credit	2,144	-
Less: Provisions recognised as liabilities	(12,160)	(13,909)
Total	**3,697,360**	**3,514,658**
Credit commitments		
Unused credit card facilities	47,676	30,634
Unused overdraft limits	1,032,901	808,869
Unused portion of credit lines	1,506,275	1,332,700
Total	**2,586,852**	**2,172,203**

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 2023.

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 2023 is remote, except the cases the provision was recorded as shown in note 28.

Commitments by credit quality based on credit risk grades at 31 December 2023 is as follows.

	Stage 1	Stage 2	Stage 3	Total
Financial guarantee	1,120,524	-	-	**1,120,524**
Letters of credit	2,144	-	-	**2,144**
Total Guarantees and Letter of Credits	**1,122,668**	**-**	**-**	**1,122,668**
Loans commitments not yet disbursed	2,568,103	18,749	-	**2,586,852**
Total credit related commitments	**3,690,771**	**18,749**	**-**	**3,709,520**
Provision for guarantees and Letter of Credits	(3,943)	-	-	**(3,943)**
Provision for loan commitments	(7,955)	(261)	-	**(8,216)**
Total commitments	**3,678,872**	**18,488**	**-**	**3,697,360**

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

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

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

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31. Related party transactions

The Bank's related parties include the parent company and ultimate controlling party ProCredit Holding 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, 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 in 2023, were Lek 60,177 thousand (2022: Lek 48,474 thousand).

Further, in the course of conducting its banking business, the Bank entered into business transactions with related parties and the balances and transactions with the ProCredit Holding AG, parent company and affiliated entities under common control at 31 December 2023 and 2022 are presented below:

		2023		**2022**
	Parent Company	**Entities under common control**	**Parent Company**	**Entities under common control**
Statement of Financial Position				
Assets	**-**	**2,852,830**	**-**	**2,446,587**
Loans and advances to banks	-	2,851,276	-	2,444,628
Other assets	-	1,554	-	1,959
Liabilities	**1,272,016**	**2,834,619**	**1,391,077**	**4,091,278**
Liabilities to banks	-	2,784,221	-	4,086,324
Liabilities to customers	521,176	-	573,289	-
Other Liabilities	1,654	50,398	2,113	4,954
Subordinated debt	749,186	-	815,675	-
Statement of Profit or Loss and OCI				
Income	**-**	**78,302**	**-**	**12,993**
Interest income	-	78,224	-	5,781
Other operating income	-	78	-	7,212
Expenses	**165,616**	**477,815**	**113,281**	**405,998**
Interest expenses	93,584	117,961	52,564	59,608
Fee and commission expenses	11,820	44,360	12,243	39,412
Administrative expenses	60,212	315,494	48,474	306,978

Key management remuneration:

	2023	**2022**
Salaries	56,366	53,967
Short-term pension contribution (mandatory scheme)	3,917	3,352
Total	**60,283**	**57,318**

32. Events after the reporting date

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

Contact Addresses

Head Office
ProCredit Bank sh.a.
Place of Registration: Tiranë
Nr. of Court Registr. 20797/11.02.1999
KIB: 20911005
NUIS: J91524011J
Adress: Rr."Dritan Hoxha" Nd.92, H.15,
Njësia Bashkiake Nr.11,
Zip Code:1026, Tiranë
Contact Center :+355(0) 42 389 389
Informacion@procredit-group.com
www.procreditbank.com.al

Branches

Tirana Branch
Rr."Dritan Hoxha" Nd.92, H.15,
Njësia Bashkiake Nr.11, Tiranë

Agencies and 24/7 Zones, till 31.12.2023

Zyrat Qendrore Agency, 24/7 Zone
Rr."Dritan Hoxha" Nd.92, H.15,
Njësia Bashkiake Nr.11, Tiranë

Bulevardi Agency, 24/7 Zone
Bulevardi Zogu I, Nr.17, Pasuria me
Nr.6/44-N3,ZK8360, Tiranë

Square 21 Agency, 24/7 Zone
Rruga e Kavajes, Kompleksi Arlis-
Ndërtim. Kati 0, pranë Policisë
Bashkiake,Tiranë

Shkodër Agency, 24/7 Zone
Lagjja Qemal Stafa, Bulevardi
Zogu i Parë, Shkodër

Durrës Agency, 24/7 Zone
Lagjja Nr.4, Autostrada Egnatia,
Pallatet Xhemf, Godina Nr.3, Kati 0, Durrës

Korçë Agency, 24/7 Zone
Adresa: Rruga Midhi Kostani, Korçë

Fier Agency, 24/7 Zone
Rruga Kastriot, Hyrja-1, Fier, Pasuria me
Nr.4/66-N6, vol.17 fq.65, ZK 8534, Fier

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