ProCredit Bank

Albania

Annual Report 2013

Key Figures

	EUR '000		ALL '000		Change
	2013	2012	2013	2012	ALL
Balance Sheet Data					
Total Assets	287,874	286,409	40,360,109	39,979,809	1.0%
Gross Loan Portfolio	176,412	171,655	24,732,977	23,961,287	3.2%
Business Loan Portfolio	133,993	133,158	18,785,810	18,587,517	1.1%
< USD 10,000	20,234	21,823	2,836,787	3,046,271	-6.9%
> USD 10,000 < USD 30,000	28,293	29,220	3,966,690	4,078,841	-2.7%
> USD 30,000 < USD 150,000	49,979	48,824	7,007,046	6,815,328	2.8%
> USD 150,000	35,487	33,291	4,975,286	4,647,078	7.1%
Agricultural Loan Portfolio	25,544	21,502	3,581,326	3,001,525	19.3%
Housing Improvement Loan Portfolio	9,285	10,093	1,301,806	1,408,870	-7.6%
Other	7,589	6,901	1,064,035	963,375	10.4%
Loan Loss Provisions	-12,433	-8,500	-1,743,101	-1,186,510	46.9%
Net Loan Portfolio	163,979	163,155	22,989,875	22,774,778	0.9%
Customer Deposits	231,399	228,061	32,442,106	31,835,025	1.9%
Liabilities to Banks and Financial Institutions (excluding PCH)	11,908	15,393	1,669,556	2,148,662	-22.3%
Total Equity	33,482	31,736	4,694,126	4,430,007	6.0%
Income Statement					
Operating Income	12,897	15,905	1,808,998	2,210,889	-18.2%
Operating Expenses	14,171	15,454	1,987,730	2,148,205	-7.5%
Operating Profit Before Tax	-1,274	450	-178,732	62,684	-385.1%
Net Profit	-1,193	430	-167,304	59,824	-379.7%
Key Ratios					
Cost/Income Ratio	76.76%	76.82%			
Return on Equity (ROE)	-3.67%	1.36%			
Capital Ratio	14.27%	13.54%			
Operational Statistics					
Number of Clients	105,534	120,864			-12.7%
of which Business Clients	20,906	24,305			-14.0%
Number of Loans Outstanding	21,019	22,919			-8.3%
Number of Deposit Accounts	167,003	171,579			-2.7%
Number of Staff	429	569			-24.6%
Number of Branches and Outlets	30	37			-18.9%

Exchange rate as of December 31:
2013: EUR 1 = ALL 140.2
2012: EUR 1 = ALL 139.59

Average exchange rate for the period:
2013: EUR 1 = ALL 140.27
2012: EUR 1 = ALL 139.01

Mission Statement

ProCredit Bank is a development-oriented full-service bank. We offer excellent customer service to private individuals and enterprises. In our operations, we adhere to a number of core principles: we value transparency in our communication with customers, we do not promote consumer lending and we provide services which are based both on an understanding of each client's situation and on sound financial analysis. This responsible approach to banking allows us to build long-term partnerships with our clients based on mutual trust.

In our operations with business clients, we focus on very small, small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and other banking services and by investing substantial resources in financial education we aim to promote a culture of savings and responsibility which can help to bring greater stability and security to ordinary households.

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

Letter from the Management Board

During 2013, ProCredit Bank Albania strengthened its positioning as a responsible bank, offering sound financial services to very small and small businesses, despite the volatile macroeconomic environment. We have continued to confirm our core values of responsible and fair banking for our clients, offering sound financial analysis, high customer service standards and open and transparent communication towards our clients.

Even though during the course of the year, the Albanian economic environment continued to be characterized by a low demand for investments from the private sector, we managed to grow our business loan portfolio in a safe way, by keeping a high quality of it, in terms of volume and arrears management.

The banking sector's loan portfolio exhibited a modest growth of 2.1% compared to the previous year; portfolio quality posed the most significant challenge, further deteriorating during the year. Non-performing loans reached a level of 24.2% in comparison to 22.5% in 2012, forcing banks to focus more intently on the quality of their credit analysis.

As a response to the market challenges, ProCredit Bank Albania undertook special efforts to enhance business operations and reorganise internal processes, measures which have raised our competitiveness in the market and internal efficiency and productivity as well. Special attention was devoted also to electronic channels. The new e-banking platforms, gives our clients the possibility to do/execute most of the transaction by themselves everywhere, at any time, coming in this way more efficient and more conveniently.

During 2013, as part of the Bank's vision and mission, we placed a special focus on financial education, through interactive and all-inclusive campaigns, in order to raise awareness and knowledge among our clients and ordinary people for core banking issues, such as consumer and business lending to support them being aware while making responsible decisions.

A very important factor for our stability and competitiveness in the market is the consistent support we receive from our shareholder, ProCredit Holding, based in Frankfurt, Germany. Despite the challenging environment and the low overall demand for financing during 2013, our business loan portfolio increased of EUR 4.2 million; more than 13 000 loans were disbursed totalling EUR 108 million and continued to be the market leader in the agricultural sector. At the end of the year, the portfolio at risk (PAR›30 days) reached a level of 8.48%. Meanwhile, the stable deposit base of EUR 224.3 million was maintained. Moreover, the bank promoted businesses loans, encouraging long-term investments and a stable relationship built upon mutual trust and institutional reliability, rather than on interest rate alone.

In 2014, we will continue to focus on managing and maintaining the quality of the bank portfolio while having a sustainable growth, in compliance with our business approach, which is based in building long-term partnerships with clients, financing well-conceived and productive projects, financial advice and close monitoring to financial situations. Particular emphasis will be placed in consolidating the relationship with small and medium enterprises, with a special regard to agribusiness sector and green projects.

The best way to keep ourselves in the market and at the same time retain our development approach is to improve efficiency and service quality, which means a focus on the quality and the professional competence of our employees. To this end, we continued to invest in our employees by providing various training opportunities in national and international levels, including at our ProCredit Academies, which offer courses in banking and finance as well as in ethics and the humanities. We remain committed to hiring individuals with high moral standards and professional integrity, qualities that are looked for during the rigorous six-month Young Bankers Programme, which job applicants must successfully complete in order to be considered for employment at ProCredit Bank.

On the eve of our 20th anniversary in Albania, we strongly believe that we have marked some very important milestones for the Albanian economy, small and medium enterprises and for private clients and ordinary people as well.

On behalf of the Board of Directors, I would like to express my gratitude and respect to all of our employees and the management for their commitment and results, despite the volatile macroeconomic situation. I would also like to thank our more than 100 000 clients, who continue to place their trust in us.

Thank you.

Adela Leka
Member of Managment Board
ProCredit Bank a.d.

Violeta Haxhillazi
Member of Management Board
ProCredit Bank a.d.

Members of the Management Board during 2013

Flutura Veipi - Spokesperson of the Management Board
*Anila Denaj - Member of the Management Board**
*Adela Leka- Member of the Management Board***
Violeta Haxhillazi - Member of the Management Board

Board of Directors during 2013

Borislav Kostadinov (Chairman)
Claus-Peter Zeitinger
Anja Lepp
Sandrine Massiani
Wolfgang Bertelsmeier

** Member of the Management Board until 2 July 2013*
*** Member of the Management Board since 20 May 2013*

Comprehensive Statement

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

Remuneration policy

In accordance with the ProCredit Bank remuneration policy in force since 15.07.2010, members of ProCredit Bank's Board of Directors and Supervisory Board are not paid a salary, but receive a per diem allowance whose amount is set from time to time by the Shareholders Assembly.

The three members of Management Board of ProCredit Bank, as the highest executive officers, in accordance with the risk profile of the bank, are paid on a monthly basis for an aggregated yearly amount of ALL 19,658,480.

The bank's remuneration policy consists of monthly salaries which are set according to the job position, experience, responsibilities and tasks of each employee and does not provide for bonuses.

Other forms of compensation for employees include:
- Shares in ProInvest-Al sh.p.k.*
- Free yearly medical check-up

In order to ensure the legality, safety and efficiency of its operations, ProCredit Bank sets and implements the following:
- Risk management policies and procedures
- Procedures for setting the criteria for appointing administrators and preparing the respective documentation for Bank of Albania approval
- Procedures for ensuring legal compliance with external regulatory frameworks

* ProInvest-Al shpk is a legal entity that was founded by ProCredit Bank Albania employees. This entity's sole function is to engage in investment activities, specifically to buy and administer shares in IPC Invest GmbH & Co. KG, which was created in accordance with German law and is registered in the Commercial Register of the District Court in Frankfurt am Main, Federal Republic of Germany. These shares are issued from time to time. The purpose of IPC Invest GmbH & Co. KG is to buy and administer shares of ProCredit Holding AG & Co. KGaA.

Financial Statements

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

Independent Auditor's Report

To the Shareholders and Board of Directors of ProCredit Bank sh.a.:

Report on the Financial Statements

We have audited the accompanying financial statements of ProCredit Bank sh.a. (the "Bank") which comprise statement of financial position as of 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers Audit sh.p.k., Blvd. Dëshmorët e Kombit, Twin Towers, Tower 1, 10th floor, Tirana, Albania
T: +355 (4) 2242 254, F:+355 (4) 2242 639, www.pwc.com/al

Registered with the National Registration Center on 15 July 2009 and with Tax Identification Number NUIS K91915023A

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

PricewaterhouseCoopers Audit sh.p.k.
PricewaterhouseCoopers Audit sh.p.k.
5 May 2014
Tirana, Albania

Statutory Auditor
Kledian Kodra, FCCA

ProCredit Bank Sh.a.

Statement of financial position as at 31 December 2013

Statement of financial position		In ALL'000		*In EUR'000	
		31 December		31 December	
	Notes	2013	2012	2013	2012
Assets					
Cash and balances with Central Bank	5	8,815,821	7,529,390	62,880	53,939
Loans and advances to banks and other financial institutions	6	544,613	2,295,366	3,885	16,444
Loans and advances to customers	7	22,989,875	22,774,778	163,979	163,155
Financial instruments available for sale	8	4,992,866	4,479,782	35,612	32,092
Property and equipment	9	1,405,650	1,579,414	10,026	11,315
Intangible assets	10	231,754	224,344	1,653	1,607
Investment Property	11	56,836	54,436	405	390
Deferred tax assets	12	31,401	21,031	224	151
Corporate income tax receivable	13	129,033	136,479	920	978
Other assets	14	1,162,260	884,789	8,290	6,338
Total assets		**40,360,109**	**39,979,809**	**287,874**	**286,409**
Liabilities					
Due to banks	15	759,295	1,169,768	5,416	8,380
Due to customers	16	32,442,106	31,835,025	231,399	228,061
Other borrowed funds	17	910,261	978,894	6,493	7,012
Subordinated debt	18	1,308,029	1,301,633	9,330	9,325
Other liabilities	19	246,292	264,482	1,757	1,895
Total liabilities		**35,665,983**	**35,549,802**	**254,395**	**254,673**
Shareholders' equity					
Share capital	20	3,387,148	2,965,682	24,371	21,371
Legal reserves	20	590,681	587,690	4,254	4,233
Translation reserve		-	-	(610)	(474)
Retained earnings		702,367	872,663	5,364	6,578
Revaluation reserve		13,930	3,972	100	28
Total shareholders' equity		**4,694,126**	**4,430,007**	**33,479**	**31,736**
Total liabilities and shareholders' equity		**40,360,109**	**39,979,809**	**287,874**	**286,409**

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

The EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 2.2).

These financial statements have been approved by the Executive Board on 31 March 2014 and signed on their behalf by:

Violeta Haxhillazi
Member of the Management Board

ProCredit Bank, Albania

Elvira Tartari
Finance and Controlling Division Manager

Statement of Comprehensive Income

For the year ended 31 December 2013

		In ALL '000		*In EUR '000**	
	Notes	**2013**	**2012**	**2013**	**2012**
Interest and similar income	21	3,367,202	3,604,396	24,005	25,929
Interest and similar expense	22	(1,224,097)	(1,264,838)	(8,727)	(9,099)
Net interest income		**2,143,105**	**2,339,558**	**15,278**	**16,830**
Fee and commission income	23	371,240	358,500	2,647	2,579
Fee and commission expense	24	(80,734)	(73,239)	(575)	(527)
Net fee and commission income		**290,506**	**285,261**	**2,072**	**2,052**
Other operating income	25	96,606	102,935	689	740
Foreign exchange translation gains less losses		13,005	11,595	93	83
Foreign exchange transaction gains less losses		46,212	57,174	329	411
Impairment charge for credit losses	7	(780,435)	(585,634)	(5,564)	(4,213)
Other operating expenses	26	(1,987,730)	(2,148,205)	(14,171)	(15,454)
(Loss)/profit before income tax		**(178,731)**	**62,684**	**(1,274)**	**449**
Income tax expense	28	11,427	(2,860)	81	(21)
(Loss)/profit for the year		**(167,304)**	**59,824**	**(1,193)**	**428**
Other comprehensive income for the year:					
Changes in AFS reserve		11,975	7,225	85	52
Deferred tax on AFS reserve		(2,017)	(722)	(14)	(5)
Translation differences		–	–	–	1
		9,958	**6,503**	**71**	**48**
Total comprehensive income for the year		**(157,346)**	**66,327**	**(1,122)**	**476**

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

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Statement of Changes in Equity

For the year ended 31 December 2013

In ALL '000	Share Capital	Statutory Reserve	Revaluation Reserve/(Deficit)	Retained Earnings	Total
Balance at 1 January 2012	**2,965,682**	**537,409**	**(2,532)**	**863,120**	**4,363,679**
Changes in AFS reserve	–	–	7,227	–	7,227
Deferred tax on AFS reserve	–	–	(723)	–	(723)
Other comprehensive income for the year	**–**	**–**	**6,504**	**–**	**6,504**
Profit for the year	–	–	–	59,824	59,824
Total comprehensive income for the year	**–**	**–**	**6,504**	**59,824**	**66,328**
Appropriation of retained earnings	–	50,281	–	(50,281)	–
Balance at 31 December 2012	**2,965,682**	**587,690**	**3,972**	**872,663**	**4,430,007**
Increase of paid capital	421,466	–	–	–	421,466
Changes in AFS reserve	–	–	11,975	–	11,975
Deferred tax on AFS reserve	–	–	(2,017)	–	(2,017)
Other comprehensive income for the year	**–**	**–**	**9,958**	**–**	**9,958**
Lost for the year	–	–	–	(167,304)	(167,304)
Total comprehensive income for the year	**–**	**–**	**9,958**	**(167,304)**	**(157,346)**
Appropriation of retained earnings	–	2,991	–	(2,991)	–
Balance at 31 December 2013	**3,387,148**	**590,681**	**13,930**	**702,367**	**4,694,126**

*In EUR '000**	Share Capital	Statutory Reserve	Translation Reserve	Revaluation Reserve	Retained Earnings	Total
Balance at 1 January 2012	**21,371**	**3,872**	**(324)**	**(18)**	**6,508**	**31,409**
Changes in AFS reserve	–	–	–	52	–	52
Deferred tax on AFS reserve	–	–	–	(5)	–	(5)
Translation differences			1	–	–	1
Other comprehensive income for the year	**–**	**–**	**1**	**47**	**–**	**48**
Profit for the year	–	–	–	–	430	430
Total comprehensive income for the year	**–**	**–**	**1**	**47**	**430**	**478**
Translation differences	–	361	(151)	–	(361)	(151)
Balance at 31 December 2012	**21,371**	**4,233**	**(474)**	**29**	**6,578**	**31,736**
Increase of paid capital	3,000	–	–	–	–	3,000
Changes in AFS reserve	–	–	–	85	–	85
Deferred tax on AFS reserve	–	–	–	(14)	–	(14)
Translation differences			–	–	–	–
Other comprehensive income for the year	**–**	**–**	**–**	**71**	**–**	**71**
Lost for the year	–	–	–	–	(1,193)	(1,193)
Total comprehensive income for the year	**–**	**–**	**–**	**71**	**(1,193)**	**(1,122)**
Translation differences	–	21	(136)	–	(21)	(136)
Balance at 31 December 2013	**21,371**	**4,254**	**(610)**	**100**	**5,364**	**33,479**

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

* The EUR equivalent figures are provided for information purposes only and do not form part of the audited financial statements (refer to note 2.2).

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	In ALL '000		In EUR '000*	
		2013	2012	2013	2012
Cash flows from operating activities					
Profit before income tax		(178,731)	62,684	(1,274)	449
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property and equipment	9;11	220,660	247,696	1,574	1,782
Amortization of intangible assets	10	38,281	33,660	273	242
Impairment charge for credit losses	7	780,435	585,634	5,567	4,213
Interest income	21	(3,367,202)	(3,604,396)	(24,017)	(25,929)
Interest expense	22	1,224,097	1,234,131	8,731	9,099
Gain on disposal of assets	25	(6,485)	(2,127)	(46)	(15)
(Reversal)/additional of other provisions	19	3,984	(1,538)	28	(11)
Interest received		3,305,026	3,604,112	23,574	25,927
Interest paid		(1,206,256)	(12,38,417)	(8,606)	(9,130)
Income tax paid		18,873	(7,061)	135	(51)
Operating profit before changes in operating assets and liabilities		**832,411**	**914,378**	**5,939**	**6,576**
Changes in operating assets and liabilities:					
Increase in compulsory reserve		285,599	(166,016)	2,037	(1,194)
Decrease/(Increase) in loans and advances to banks and other financial institutions		(19,581)	256,759	(140)	1,847
Decrease/(Increase) in loans and advances to customers		(903,776)	451,909	(6,446)	3,251
Increase in other assets		(277,471)	(126,369)	(1,979)	(909)
(Decrease)/Increase in due to banks		(409,896)	604,985	(2,924)	4,352
Increase/(Decrease) in due to customers		588,975	(123,821)	4,201	(891)
Increase/(Decrease) in other liabilities		(32,543)	(370,412)	(232)	(2,665)
Net cash from operating activities		63,718	1,441,413	456	10,367
Cash flows from investing activities					
Purchase of financial assets available for sale	8	(4,179,309)	(3,639,250)	28,558	26,071
Proceeds from matured financial assets available for sale	8	3,646,841	5,268,217	(26,410)	(37,741)
Proceeds from sale of property and equipment		31,865	10,402	227	75
Purchases of intangible assets	10	(45,691)	(37,244)	(326)	(268)
Purchases of property and equipment	9;11	(74,674)	(205,510)	(533)	(1,478)
Net cash from investing activities		(620,968)	1,276,659	(4,430)	9,184
Cash flows from financing activities					
Increase in subordinated debt	18	6,143	7,212	44	52
Increase of capital		421,466	–	3,006	–
Repayment of other borrowed funds	7	(68,423)	(70,261)	(488)	(506)
Net cash used in financing activities		359,186	(63,049)	2,562	(454)
Translation differences		–	–	−2	2
Increase/(Decrease) in cash and cash equivalents		**(198,064)**	**2,655,023**	**(1,414)**	**19,099**
Cash and cash equivalents at beginning of the year		**6,787,857**	**4,132,834**	**48,847**	**29,748**
Cash and cash equivalents at end of the year	29	**6,589,793**	**6,787,857**	**47,433**	**48,847**

The accompanying notes on pages 7 to 59 form an integral part of these financial statements.

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Notes to the Financial Statements

For the year ended 31 December 2013
(All amounts expressed in ALL '000, unless otherwise stated)

1. Introduction

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

As at 31 December 2013, the shareholder of the Bank is ProCredit Holding AG & Co. KGaA holding 100% of the shares:

Shareholder	2013	2012
ProCredit Holding AG & Co. KGaA	100%	100%

As at 31 December 2013, the Bank, was operating from a Head Office in Tirana with 30 branches and agencies in Tirana, Durrës, Fier, Elbasan, Korçë, Shkodër, Lezhë, Lushnja, Pogradec, Berat, Saranda, Vlorë, Gjirokastër, Bilisht.

Principal activity

The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank has operated under a full banking licence issued by the the Central Bank of the Republic of Albania ("Bank of Albania" or "BoA") since 1999. The Bank participates in the state deposit insurance scheme, which was introduced by the Law 8873 dated 29 March 2002 "On deposits' insurance" subsequently amended by Law 10106 dated 30 March 2009. The state Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to ALL 25 thousand per individual in case the Bank of Albania takes over the administration of the insured Bank and puts it on liquidation or withdraws the licence or when the Bank is put on voluntary liquidation.

2. Significant accounting policies

2.1 Statement of compliance

The financial statements of ProCredit Bank sh.a. have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC).

The following standards, amendments and interpretations to existing standards are mandatory for the Company's accounting periods beginning on or after the effective date:

(a) New and amended standards adopted by the Bank

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "Statement of profit or loss and other comprehensive income" and has been applied by the Bank with no impact on the measurement of transactions and balances.

IFRS 7(amended). In December 2011 the IASB issued Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. The amendments clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The application of the amendment is required for annual periods beginning on or after 1 January 2013. The adoption of amended standard did not result in significant changes in the disclosures in the Bank's financial statements.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
The requirements which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of the new standard did not result in significant changes in the financial statements of the Bank.

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, but not relevant to the Bank's operations.

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank reports accumulated amount of these remeasurements in retained earnings in equity.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Bank's financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates.

(c) New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Bank does not intend to adopt the existing version of IFRS 9.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.
The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

2.2 Basis of preparation

The financial statements are presented in Albanian ALL, rounded to the nearest thousand. They are prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets.

EUR equivalent figures

In addition to presenting the financial statements in ALL, supplementary information in EUR has been prepared for the convenience of users of the financial statements, translating ALL'000 to EUR'000. The statement of financial position and statement of changes in equity for the year ended 31 December 2013 have been translated at the official rate of the Bank of Albania as at 31 December 2013 of ALL 140.20 to EUR 1 (2012: 139.59). The statement of comprehensive income and statement of cash flows have been translated with the average exchange rate for 2013 of 140.27 to EUR 1 (2012: 139.01).

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.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

2.3 Financial instruments

(i) Classification
The Bank classifies its financial assets in the following categories: loans and receivables and financial assets available for sale. Management determines the classification of its investments at initial recognition. The Bank did not classify any financial asset as at fair value through profit or loss during the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are initially recognised at fair value. All loans and advances are recognised when cash is advanced to borrowers. After initial recognition, these are subsequently measured at amortised costs using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Financial assets available for sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(ii) Measurement
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments (note 8).

(iii) Fair value measurement principals
The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques, commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(iv) Gains and losses on subsequent measurement
Gains and losses arising from changes in the fair value of the available for sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale is recognised in profit or loss.

(v) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. The statutory reserve with the Central Bank is not available for the Bank's day-to-day operations and is not included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are carried at amortised cost. Further details of what comprises cash and cash equivalents can be found in note 29.

(vi) Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (i.e. If substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(vii) Financial guaranties

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognise in profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to profit or loss under other operating expenses.

2.4 Impairment of financial assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

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

2.5 Impairment of financial assets carried at fair value

Financial assets available for sale

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reversed from other comprehensive income and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2.6 Offsetting financial instruments

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

2.7 Property and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment to allocate their cost to their residual value. Leasehold improvements relate to expenditures on branch renovations and are depreciated over the period of the lease. The following are approximations of the annual rates used:

	%
i. Computer, electronic and other equipment	20
ii. Vehicles	20
iii. Furniture	10
iv. Buildings	2.5

The residual value and useful lives are reassessed annually.

2.8 Intangible assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis at an annual rate of 10% over the estimated useful lives of intangible assets.

2.9 Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.10 Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

2.11 Investment Property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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

2.12 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in profit or loss on a straight-line basis over the period of the lease.

2.13 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.14 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.15 Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Employee benefits

Compulsory social security contributions
The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement.

The Government of Albania is 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 profit or loss as incurred.

Paid annual leave
The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

2.17 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.19 Foreign currency transactions

(i) Functional and presentation currency
The financial statements are presented in ALL, which is the Bank's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions and recognised in profit or loss under "Foreign exchange transactions gains less losses".

(iii) Translations and balances
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to "Foreign exchange translation gains less losses" in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The applicable rates of exchange (ALL to foreign currency unit) for the principal currencies as at 31 December 2013 and 2012 were as follows:

	2013	2012
USD	101.86	105.85
EUR	140.20	139.59
GBP	168.39	171.18
CHF	114.41	115.65

2.20 Comparatives

The comparative information is presented consistently applying the Bank's accounting policies. When necessary, comparative figures are reclassified for the purposes of comparability.

3. Financial risk management

The Bank's activities expose it to a variety of financial 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 minimise 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. Risk management is carried out by the risk division of the Bank under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary and non-monetary assets and liabilities of the Bank.

Subject to decisions of the bank's Assets and Liabilities Committee ('ALCO') and approval of the Group Risk Management Committee, a strategic position can be entered on the level of the bank in order to hedge the group risks.

The following rules apply at the level of the bank:

- The currency in which the Bank obtains financing determines the currency in which loans are given to customers and vice versa. It is required to balance assets and liabilities per currency in both amounts and maturities as far as possible in order to protect the bank against currency fluctuations. If this is not possible, financial instruments shall be used to the extent available to close the gaps.
- If the Bank carries out operations in both local and other currencies, it must monitor its foreign currency exposure on a daily basis (treasury front office and financial control) with the aim of closing out any open positions (except strategic positions).

The establishment of foreign currency positions for speculative purposes is not permitted. Currency movements and foreign exchange rate shocks are analysed via scenario analyses. Scenario analyses assess the effect that exchange rate movements have on the Open Currency Position ('OCP') in each material operating currency.

The Bank's treasury front office informs the bank's risk management sector regularly and in case of significant exchange rate developments.

Each bank's treasury front office monitors the OCP continuously during the day and is responsible for closing within due course. This OCP is reviewed by the bank's financial control and reported by the bank's MIS sector to the PCH MIS/controlling department daily. The bank's financial control and the accounting sector reconcile their OCP with that of the treasury front office regularly, at least once a month. In case a deviation above 1% of the regulatory capital is identified, financial control must inform the Management Board member(s) in charge of back office.

The analysis of on and off balance sheet financial assets and liabilities as at 31 December 2013 by the foreign currencies in which they were denominated was as follows:

31 December 2013	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	3,409,975	4,646,804	680,370	78,672	8,815,821
Loans and advances to banks and other financial institutions	–	213,950	330,663	–	544,613
Financial instruments available for sale	4,149,999	842,867	–	–	4,992,866
Loans and advances to customers	13,114,632	9,260,481	614,762	–	22,989,875
Other financial assets	178,517	226,733	46,296	3,873	455,419
Total Financial Assets	**20,853,123**	**15,190,835**	**1,672,091**	**82,545**	**37,798,594**
Liabilities					
Due to banks	744,751	–	14,544	–	759,295
Due to customers	20,751,575	9,719,967	1,888,286	82,278	32,442,106
Other borrowed funds	–	910,261	–	–	910,261
Other financial liabilities	134,795	70,545	3,614	77	209,029
Subordinated debt	–	1,308,029	–	–	1,308,029
Total Financial Liabilities	**21,631,121**	**12,008,802**	**1,906,444**	**82,355**	**35,628,722**
Net on-balance sheet currency position	**(777,997)**	**3,182,033**	**(234,353)**	**190**	**2,169,873**
Off-balance sheet commitments and guarantees	**1,186,671**	**912,120**	**626,119**	**–**	**2,724,910**

The Bank takes into account that its equity is denominated in EUR when it reviews its OCP in EUR.

The analysis of on and off balance sheet financial assets and liabilities as at 31 December 2012 by the foreign currencies in which they were denominated was as follows:

31 December 2012	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	2,630,007	4,246,659	547,659	105,065	7,529,390
Loans and advances to banks and other financial institutions	–	1,605,358	690,008	–	2,295,366
Financial instruments available for sale	3,639,250	840,532	–	–	4,479,782
Loans and advances to customers	12,858,737	9,214,246	701,795	–	22,774,778
Other financial assets	118,987	29,432	2,516	146	151,081
Total Financial Assets	**19,246,981**	**15,936,227**	**1,941,978**	**105,211**	**37,230,397**
Liabilities					
Due to banks	1,169,768	–	–	–	1,169,768
Due to customers	19,490,431	10,258,585	1,988,715	97,294	31,835,025
Other borrowed funds	–	978,894	–	–	978,894
Other financial liabilities	170,804	57,476	3,064	–	231,344
Subordinated debt	–	1,301,633	–	–	1,301,633
Total Financial Liabilities	**20,831,003**	**12,596,588**	**1,991,779**	**97,294**	**35,516,664**
Net on-balance sheet currency position	**(1,584,022)**	**3,339,639**	**(49,801)**	**7,917**	**1,713,733**
Off-balance sheet commitments and guarantees	**1,590,520**	**958,027**	**525,513**	**–**	**3,074,060**

Foreign currency sensitivity analysis

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

It is the responsibility of the Bank's treasury front office to keep the currency position within the set limits. In daily operations, it assesses foreign exchange rate developments with reference to all material currency positions. Major changes in the structure of assets and liabilities denominated in foreign currency and their impact must be reviewed before trades are executed by the bank's treasury front office.

As a core principle with relation to foreign currency risk management, the Bank does not engage in proprietary trading and does not invest in currencies. The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. As the Bank has its capital denominated in EUR, while it operates in non-EUR country, it has an approved long foreign currency position to account for the capital. The bank is not allowed to enter any speculative positions on foreign exchange markets.

At 31 December 2013, if the ALL exchange rate against the EUR and USD had fluctuated between the most extreme 99th or 1st percentile of the last 7 years the loss impact from the open currency position of the bank would have been ALL 94, 300 thousand (EUR 673 thousands).

3.2 Interest rate risk

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

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 as balanced as possible across all maturities. The goal is to match repricing profiles between assets and liabilities. If this is not possible for exceptional reasons, interest rate derivatives can be used for hedging purposes only.

When considering entering an interest rate sensitive transaction with a notional amount exceeding 5% of the bank's regulatory capital, and which has a longer maturity to the next re-pricing than 6 months, the bank's treasury front office sector, or any other sector that might perform transactions with these characteristics, has to consult the bank's risk management sector prior to the decision. Once the bank's risk management sector has verified that the post-transaction interest rate structure remains within the approved interest rate risk limits and the transaction is approved by ALCO, the bank's treasury front office sector can execute the transaction.

The Bank's treasury front office unit carries out all interest rate trades. Before entering into any interest rate transaction, it must consult the Bank's risk management department and the group market risk management unit. Immediately after completing the trade, it must enter the interest rate sensitive transactions into the respective systems immediately for processing and control by the Bank's treasury back office and the bank's risk management department.

The Bank's risk management department analyses what effect significant interest rate changes could have on the financial statements (resulting from, for example, actual and expected new financing, new areas of business or reaching the maturity of exposures). If the bank's risk management department identifies significant changes of interest rates or of the maturity structure, a modified duration gap and an interest rate gap analysis should be recalculated immediately.

The bank's risk management department reviews all interest rate positions in all material currencies at least quarterly and before any transaction large enough to affect the bank's interest rate risk.

Both the bank's ALCO and the bank's Risk Management Committee have the authority to approve interest rate exposure modifications within the limits set in this policy. Higher limits are only possible in exceptional cases and are subject to approval by the Group ALCO or the Group Risk Management Committee.

The bank's risk management department, in cooperation with the bank's treasury front office unit, can make recommendations to the bank's ALCO and the bank's Risk Management Committee on possible actions.

The following tables are presented based on the earliest between the maturity or the re-pricing date.

31 December 2013	**Up to 1 month**	**1 – 3 months**	**3 – 6 months**	**6 – 12 months**	**Over 1 year**	**Non–interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	6,066,433	–	–	–	–	2,749,388	8,815,821
Loans and advances to banks and other financial institutions	313,156	210,300	–	–	–	21,157	544,613
Financial instruments available for sale	340,200	1,400,000	1,347,053	1,966,318	–	(60,705)	4,992,866
Loans and advances to customers	2,972,402	1,546,040	3,007,207	4,429,511	12,907,957	(1,873,241)	22,989,875
Other financial assets	–	–	–	–	–	455,419	455,419
Total Financial Assets	**9,028,254**	**4,045,800**	**6,151,144**	**10,438,450**	**5,872,535**	**2,262,411**	**37,798,594**
Liabilities							
Due to banks	759,295	–	–	–	–	–	759,295
Due to customers	8,147,385	3,569,950	4,157,344	9,081,512	953,287	6,532,627	32,442,106
Other borrowed funds	–	117,826	16,677	33,354	740,531	1,873	910,261
Other liabilities	–	–	–	–	–	209,030	209,029
Subordinated debt	–	–	–	–	1,258,094	49,935	1,308,029
Total Financial Liabilities	**8,906,681**	**3,687,776**	**4,174,021**	**9,114,866**	**2,951,912**	**6,793,465**	**35,628,720**
Interest sensitivity gap	**121,572**	**358,024**	**1,977,124**	**1,323,584**	**2,920,623**	**(4,531,053)**	**2,169,873**

31 December 2012	**Up to 1 month**	**1 – 3 months**	**3 – 6 months**	**6 – 12 months**	**Over 1 year**	**Non–interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	3,033,878	–	–	–	–	4,495,512	7,529,390
Loans and advances to banks and other financial institutions	2,083,925	209,385	–	–	–	2,056	2,295,366
Financial instruments available for sale	339,590	1,839,590	1,498,102	872,255	–	(69,755)	4,479,782
Loans and advances to customers	1,125,040	1,334,770	2,571,378	4,266,093	14,815,617	(1,338,120)	22,774,778
Other financial assets	–	–	–	–	–	151,081	151,081
Total Financial Assets	**6,582,433**	**3,383,745**	**4,069,480**	**5,138,348**	**14,815,617**	**3,240,774**	**37,230,397**
Liabilities							
Due to banks	1,169,768	–	–	–	–	–	1,169,768
Due to customers	6,694,465	3,921,597	4,143,454	8,935,485	757,325	7,382,700	31,835,026
Other borrowed funds	–	19,961	16,605	36,566	906,611	(849)	978,894
Other liabilities	–	–	–	–	–	231,344	231,344
Subordinated debt	–	–	–	–	1,251,951	49,682	1,301,633
Total Financial Liabilities	**7,864,233**	**3,941,558**	**4,160,059**	**8,972,051**	**2,915,887**	**7,662,877**	**35,516,665**
Interest sensitivity gap	**(1,281,800)**	**(557,813)**	**(90,579)**	**(3,833,703)**	**11,899,730**	**(4,422,103)**	**1,713,732**

Interest rate sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rates for all interest rate sensitive assets and liabilities at the reporting date. These rates are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 31 December 2013, if ALL interest rates had been more than 250 basis points higher, with all other variables held constant, pre-tax profit for the year would have been ALL 32,905 thousand (2012: ALL 50,196 thousand) lower, mainly as a result of higher interest expense rates on customer deposits compared to interest income rates on financial instruments available for sale and loans to customers.

At 31 December 2013, if EUR market interest rates had been 200 basis points higher, with all other variables held constant, pre-tax profit for the year would have been ALL 51,125 thousand (2012: ALL 66,757 thousand) higher, mainly as a result of higher interest expense rates on customer deposits and borrowings compared to interest income rates on placements with banks and loans to customers.

At 31 December 2013, if USD market interest rates had been 200 basis points higher, with all other variables held constant, post-tax profit for the year would have been ALL 12,803 thousand (2012: ALL 14,578 thousand) higher, mainly as a result of lower interest expense rates on customer deposits, compensated by interest income rates on cash and balances with banks. The interest rate sensitivity analysis include all variable interest rate assets and liabilities and assumes that all short term fixed rate assets and liabilities will be reinvested upon maturity

3.3 Credit risk

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

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (see note 30).

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

3.3. 1 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 industries and countries.

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 revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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:

- Cash and bank guarantees,
- Mortgages over residential properties;
- Business assets such as premises, inventory and accounts receivable.

Loans to corporate entities and individuals are generally secured. In order to minimise 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.

(b) Credit-related contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans and are secured with same collateral as loans.

3.3.2 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see Note 2.n).

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

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

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

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

According to internal methodology of the bank, classification is done by applying the principle of the number of days in arrears in repayment of the loan liabilities by clients. This principle of number of days in arrears means the following classification set-up:

I. class of loan and off balance receivables corresponds to loans with no arrears or with arrears up to 7 days;
II. class of loan and off balance receivables corresponds to loans with arrears from 8 to 30 days;
III. class of loan and off balance receivables corresponds to loans with arrears from 31 to 90 days;
IV. class of loan and off balance receivables corresponds to loans with arrears from 91 to 180 days;
V. class of loan and off balance receivables corresponds to loans with arrears of over 180 days;

Number of days in arrears means the number of days in delay with the payment of interest or principle from the due date until the day of setting the risk classes. In this manner the risk classes are set every month.

The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's categories:

Bank's rating		**2013**		**2012**
In %	**Loans and advances**	**Impairment provision**	**Loans and advances**	**Impairment provision**
Specific Impairment	13.97	22.0	9.85	12.60
Arrears 0-7 days	75.50	1.2	79.60	1.1
Arrears 8-30 days	7.44	1.2	7.90	1.1
Arrears 31-90 days	0.58	50	0.47	50
Arrears 91-180 days	0.36	75	0.34	75
Above 180 days	2.15	100	1.84	100
	100.00	**6.8**	**100**	**4.5**

Loans and advances are summarised as follows:

		31 December 2013		**31 December 2012**
	Loans to customers	**Loans to banks**	**Loans to customers**	**Loans to banks**
Neither past due nor impaired	18,040,589	544,613	18,917,150	2,295,366
Past due but not impaired	3,237,387	–	2,683,369	–
Individually impaired	3,455,001	–	2,360,769	–
Gross	24,732,977	544,613	23,961,288	2,295,366
Less: allowance for impairment	(1,743,102)	–	(1,186,510)	–
Net	**22,989,875**	**544,613**	**22,774,778**	**2,295,366**

3.3.3 Quality of the loan portfolio

The total impairment provision for loans and advances to customers as at 31 December 2013 is ALL 1,743,102 thousand (31 December 2012: ALL 1,186,510 thousand). Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 7.

Individually significant loans are closely monitored by the Credit Risk Committee of the Bank. If there is any objective evidence of deterioration of an individual significant loan, the need for individual impairment is assessed, taking into account:

a. any factors which might influence the customers ability to ful fil his obligation (e.g. any specific information on the customer's business, changes in the customer's market environment, general economic situation);
b. the aggregate exposure to the client;
c. the realizable value of collateral held.

For the calculation of the individual impairment a Discounted Cash Flow approach is applied.

(a) Loans and advances neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank. All loans and advances which are neither past due nor impaired are classified in category I of the Bank's rating (note 3.3.2). The Following tables provide an analysis of loans and advances to customers by counterparty and credit quality.

31 December 2013	Business	Agricultural	Housing	Consumer	Other	Total
Standard	13,843,092	2,362,948	1,046,747	530,926	256,876	18,040,589
Specifically reviewed for impairment	–	–	–	–	–	–
Total	**13,843,092**	**2,362,948**	**1,046,747**	**530,926**	**256,876**	**18,040,589**

31 December 2012	Business	Agricultural	Housing	Consumer	Other	Total
Standard	14,862,261	1,970,930	1,203,337	541,964	338,658	18,917,150
Specifically reviewed for impairment	–	–	–	–	–	–
Total	**14,862,261**	**1,970,930**	**1,203,337**	**541,964**	**338,658**	**18,917,150**

Standard category relates to loans 'neither past due nor impaired' for which no evidence of impairment is identified.

(b) Loans and advances past due but not impaired
Loans and advances less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2013	Business	Agricultural	Housing	Consumer	Total
Past due 1 - 7 days	111,466	560	8,533	24,697	145,256
Past due 8 - 30 days	1,823,246	300,899	145,953	49,357	2,319,455
Past due 31 - 90 days	105,099	21,605	13,346	10,760	150,810
Past due 91 – 180 days	56,495	13,163	11,592	9,471	90,721
Past due over 180 days	354,584	80,869	55,489	40,203	531,145
Total	**2,450,891**	**417,095**	**234,913**	**134,488**	**3,237,387**
Fair value of collateral	**1,970,134**	**316,588**	**162,898**	**56,140**	**2,505,759**

31 December 2012	Business	Agricultural	Housing	Consumer	Total
Past due 1 - 7 days	133,951	2,262	13,799	5,436	155,448
Past due 8 - 30 days	1,471,487	275,767	109,264	36,309	1,892,827
Past due 31 - 90 days	73,399	11,372	15,729	10,903	111,403
Past due 91 – 180 days	43,782	16,991	11,143	9,852	81,768
Past due over 180 days	310,341	73,370	43,470	14,742	441,923
Total	**2,032,960**	**379,762**	**193,405**	**77,242**	**2,683,369**
Fair value of collateral	**1,962,550**	**340,749**	**134,685**	**25,205**	**2,463,190**

Disclosed amounts are gross values before impairment.

(c) Loans and advances to customers individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows.

31 December 2013	Business	Agricultural	Housing	Consumer	Other	Total
Individually impaired loans	2,602,471	828,593	23,709	-	228	3,455,001
Fair value of collateral	1,824,796	281,026	23,709	-	-	2,129,531

31 December 2012	Business	Agricultural	Housing	Consumer	Other	Total
Individually impaired loans	1,700,725	650,234	9,533	–	277	2,360,769
Fair value of collateral	1,700,335	649,872	9,533	–	–	2,359,740

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

Management considers the loans covered by collateral as impaired because experience shows that a significant proportion of the collateral cannot be enforced due to administrative and legal difficulties such as delays in the legal process and the execution of court decisions. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

The factors which are taken into consideration by in determining individually impaired receivables are as follows:

- delinquencies in contractual payments of interest or principal of more than 30 days;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings;
- any specific information on the client's business (e.g. reflected by cash flow difficulties experienced by the client);
- changes in the client's market environment;
- the general macro-economic situation.

3.3.4 Maximum exposure to risk before collateral held

The following table shows exposure to credit risk on 31 December 2012 and 2011 indicating total exposure to credit risk without taking into consideration means of collateral. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. The table also includes off balance items which might lead to credit risk.

	Maximum exposure	
	2013	2012
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances with Central Bank	8,815,821	7,529,390
Loans and advances to banks and other financial institutions	544,613	2,295,366
Loans and advances to customers:		
Business	17,785,259	17,728,231
Agricultural	3,137,568	2,799,392
Housing	1,209,099	1,328,591
Consumer	596,691	575,716
Other	261,258	342,848
	22,989,875	**22,774,778**
Financial instruments available for sale	4,992,866	4,479,782
Other financial assets	455,419	147,925
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	2,096,251	2,071,706
Financial guarantees	728,995	683,098
Total	**39,894,845**	**39,982,045**

The structure of the loan portfolio is regularly reviewed within the Banks in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and if necessary limit the exposure toward certain sectors of the economy.

31 December 2013	Business	Agricultural	Housing	Consumer	Other	Total
‹ 30,000 EUR	5,471,700	1,321,761	840,960	558,981	197,216	8,390,618
30,000 – 150,000 EUR	7,119,914	1,055,828	368,139	37,710	64,226	8,645,817
› 150,000 EUR	5,193,460	759,980	–	–	–	5,953,440
Total	**17,785,074**	**3,137,569**	**1,209,099**	**596,691**	**261,442**	**22,989,875**

31 December 2012	Business	Agricultural	Housing	Consumer	Other	Total
‹ 30,000 EUR	5,752,272	1,222,713	1,059,333	560,182	254,652	8,849,152
30,000 – 150,000 EUR	6,925,097	787,597	269,258	15,534	88,196	8,085,681
› 150,000 EUR	5,050,863	789,082	–	–	–	5,839,945
Total	**17,728,232**	**2,799,392**	**1,328,591**	**575,716**	**342,848**	**22,774,778**

3.3.5 Loans and advances renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of bank management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled ALL 1,848,258 thousand (2011: ALL 1,154,259 thousand).

	2013		2012	
	Outstanding balance	Number of loans	Outstanding balance	Number of loans
Business	1,615,850	339	1,024,098	301
Agricultural	151,283	94	83,752	80
Housing	61,410	82	30,874	79
Consumer	19,715	100	15,535	57
Total	**1,848,258**	**615**	**1,154,259**	**517**

3.3.6 Repossessed collateral

Collateral obtained due to legal process include land, building and business premises which are not used by the Bank. Collateral obtained due to legal process are to be sold as soon as practicable.

3.3.7 Collateral policy

Collateral includes cash, mortgages, inventory and other assets pledged in favour of the bank from its borrowers and as at 31 December 2013 amount ALL 24,609,222 thousand (2012: ALL 23,950,760 thousand). Collateral is valued at the date credit is extended and reassessed periodically for impairment.

The following table presents the distribution of the Bank's loans, overdrafts and credit cards by primary guarantee type, excluding accrued interest and disbursement fee from loans:

Primary guarantee type	31 December 2013	%	31 December 2012	%
Mortgages	383,389	2	381,422	2
Other collateral	1,636,196	7	1,551,156	6
Mixed (Mortgage and other)	22,257,815	90	21,717,467	91
Unsecured	331,822	1	300,715	1
Total	**24,609,222**	**100**	**23,950,760**	**100**

3.3.8 Structure and diversification of the loan portfolio

The following table presents the distribution of the Bank's loans, overdrafts and credit cards by industry sector, excluding accrued interest and disbursement fee from loans:

Industry sector	31 December 2013	%	31 December 2012	%
Trade	8,672,654	35	8,089,424	34
Industry and other production	3,446,034	14	3,221,039	13
Construction	755,898	3	839,815	4
Transport	648,751	3	753,803	3
Services	6,350,761	26	7,109,452	30
Other	4,735,122	19	3,937,228	16
Total	**24,609,222**	**100**	**23,950,761**	**100**

3.3.9 Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Guarantees or letters of credit are subjected to the same approval mechanism as regular loans. This also implies that the same collateral requirements apply for off balance commitments as for loans. Moreover, the bank measures total client exposure and creditworthiness by adding also off-balance commitments to it and by taking into consideration the connected parties and their exposure and creditworthiness.

3.4 Liquidity risk

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

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected discounted cash inflows.

31 December 2013	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Liabilities					
Due to other banks	759,295	–	–	–	759,295
Due to customers	14,807,062	3,671,434	13,489,493	996,163	32,964,152
Other borrowed funds	–	22,307	86,833	1,193,860	1,303,000
Other liabilities	246,292	–	–	–	246,292
Subordinated debt	37,525	32,478	96,632	1,824,955	1,991,589
Total Liabilities (by contractual due dates)	**15,850,174**	**3,726,219**	**13,672,957**	**4,014,977**	**37,264,328**
Total Assets (by expected due dates)	**10,998,367**	**3,640,677**	**12,705,375**	**14,583,789**	**41,928,208**

31 December 2012	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Liabilities					
Due to other banks	1,169,768	–	–	–	1,169,768
Due to customers	13,244,037	352,575	13,568,637	5,165,958	32,331,207
Other borrowed funds	–	23,572	209,107	1,167,561	1,400,240
Other liabilities	284,812	–	–	–	284,812
Subordinated debt	29,052	92,527	72,058	1,867,485	2,061,121
Total Liabilities (by contractual due dates)	**14,727,669**	**468,674**	**13,849,802**	**8,201,004**	**37,247,149**
Total Assets (by expected due dates)	**10,847,147**	**3,718,921**	**9,984,954**	**20,050,922**	**44,601,945**

3.5 Estimation and disclosure of fair value

Fair value estimates are based on existing statement of financial position financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

	Carrying value		Fair value	
	2013	2012	2013	2012
Financial assets				
Cash and balances with Central Bank	8,815,821	7,529,390	8,815,821	7,529,390
Loans and advances to customers	22,989,875	22,774,778	23,927,164	22,998,567
Business	17,785,075	17,728,232	18,412,803	17,877,567
Agricultural	3,137,568	2,799,392	3,301,980	2,820,240
Housing	1,209,099	1,328,591	1,236,105	1,393,138
Consumer and other	858,133	918,563	976,276	907,622
Loans and advances to banks and other financial institutions	544,613	2,295,366	544,613	2,295,366
Financial instruments available for sale	4,992,866	4,479,782	4,992,866	4,479,782
Other financial assets	427,407	147,925	427,407	147,925
Financial liabilities				
Due to banks	759,295	1,169,768	759,295	1,169,768
Due to customers	32,442,106	31,835,025	33,140,301	32,334,663
Other borrowed funds	910,261	978,894	910,261	978,894
Subordinated debt	1,308,029	1,301,633	1,308,029	1,301,633
Other financial liabilities	209,030	231,344	209,030	231,344

Loans and advances to banks and other financial institutions
Loans and advances to financial institutions include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term their fair value is considered to approximate their carrying amount.

Loans and advances to customers
Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates, which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

The fair value of loans and advances to customers is their expected cash flow discounted at current market rates. Current market rates are interest rates we would charge at the moment (year-end).

Due to banks and customers
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. At 31 December 2013, the fair value of the time deposits was ALL 33,140,301 thousand (31 December 2012: ALL 32,334,663 thousand), while its carrying value was ALL 32,442,106 thousand (31 December 2012: ALL 31,835,025 thousand).

The estimated fair value of term deposits is calculated by discounting the cash flows at agreed dates with end of the year rates on deposit that have more than a six-month maturity and where actual interest rate is not the same as the agreed for these deposits.

Other borrowed funds
At 31 December 2013, the estimated fair value of borrowed funds approximate the carrying value due to the interest rate which approximates market rates (note 17).

Subordinated Debt
At 31 December 2013, the estimated fair value of subordinated debt approximate the carrying value due to the interest rate which approximates market rates (note 18).

Financial instruments measured at fair value
The following hierarchy has been used by the Bank in determining the fair values of available for sale as at 31 December 2013 and 2012:

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The table below summarises the fair values of those financial assets that are measured at fair value as at 31 December 2013 and 2012:

Financial instruments available for sale

	31 December 2013	31 December 2012
Treasury bills	4,149,999	3,639,250
Bonds	842,645	840,311
Shares	222	221
	4,992,866	**4,479,782**

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, 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 monitored daily 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 ALL and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 12%.

The Bank's regulatory capital as managed by its Risk Department is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), retained earnings and reserves created by appropriations of retained earnings ; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity and debt instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table in the next page summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2013 and 2012. As at 31 December 2013 the Bank complied with all of the externally imposed capital requirements to which they are subject.

Deductions represent investments in financial institutions over 10% and intangible assets. The intangible assets are also deductible amount from Tier I and Tier II capital.

	2013	2012
Tier 1 capital		
Share capital	3,387,148	2,965,682
Statutory reserve	590,681	587,690
Revaluation effect for statutory reporting	215,814	202,837
Statutory retained earnings	(284,925)	338,645
Total qualifying Tier 1 capital	**3,908,718**	**4,094,854**
Tier 2 capital		
Subordinated liability net of statutory deductions	1,025,506	867,497
Total qualifying Tier 2 capital	**1,025,506**	**867,497**
Deductions from regulatory capital	–	–
Statutory intangible assets	(223,837)	(215,283)
Statutory loss for the year	(388,217)	(595,365)
Total regulatory capital	**4,322,170**	**4,151,703**
Risk-weighted assets:		
On-balance sheet	28,959,494	29,396,711
Off-balance sheet	1,320,515	1,268,706
Total risk-weighted assets	**30,280,009**	**30,665,417**
CAR ratio	**14.27%**	**13.54%**

4. 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 judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

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

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. Repayments of loans previously written off were ALL 56,150 thousand in 2013 (2012; ALL 69,668 thousand) as a result of the strict adherence by the Bank to the write off policy as well as the increased efforts to execute collateral.

4.2 Going concern

Management prepared these financial statements on a going concern basis. In making this judgment management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Bank.

5. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	31 December 2013	31 December 2012
Cash		
Cash on hand	1,287,971	1,432,424
Current accounts		
Non-resident	4,325,400	2,543,514
Central Bank		
Current account	453,062	518,465
Monetary values in transit	–	2,152
Subtotal included in cash and cash equivalents (note 28)	6,066,433	4,494,403
Statutory reserve	2,749,388	3,034,987
Total	**8,815,821**	**7,529,390**

Mandatory reserves with the Central Bank are not for everyday use by ProCredit Bank and represent a minimum reserve deposit, required by the Central Bank of Albania. Such reserves are calculated as a percentage of 10% over the amounts due to customers with original maturity lower or equal to 24 months. Such reserves are kept in ALL (for ALL deposits), in EUR (for EUR and other foreign currencies, i.e. GBP, CHF) and in USD (for USD deposits).

6. Loans and advances to banks and other financial institutions

Loans and advances to financial institutions are detailed as follows:

	31 December 2013	31 December 2012
Deposit accounts		
Non-resident	523,360	2,293,454
Subtotal deposit accounts	**523,360**	**2,293,454**
Other	21,253	1,912
Total	**544,613**	**2,295,366**
Current	544,613	2,295,366
Non-current	–	–

Loans and advances to banks and other financial institution included in cash and cash equivalents (note 28) as at 31 December 2013 amount to ALL 523,360 (31 December 2012: ALL 2,293,454).

Other accounts include deposits for letters of credit and guarantees. As at 31 December 2013, 100% of deposits (31 December 2012: 100%) are held with banks of OECD countries and have contractual maturities up to three months.

Deposits with banks as at 31 December 2013 consisted of the following:

Counterparty	S&P FITCH	CCY	Total outstanding balance in original currency	Total balance in ALL '000 equivalent
Erste Group Bank AG	A	USD	3,000,233	305,604
Bank of America	A	USD	72,973	7,433
Bank fuer Orden und Mission	A+	EUR	1,500,163	210,323
Total				**523,360**

Deposits with banks as at 31 December 2012 consisted of the following:

Counterparty	S&P FITCH	CCY	Total outstanding balance in original currency	Total balance in ALL '000 equivalent
Erste Group Bank AG	A	USD	6,500,666	688,095
FFT SPARKASSE	A+	EUR	2,000,031	279,184
Bank fuer Orden und Mission	A+	EUR	1,500,208	209,414
KBC BE	A-	EUR	4,000,156	558,382
INTESAMM	A-	EUR	2,500,081	348,986
UniCredit S.p.A.	A-	EUR	1,500,048	209,393
Total				**2,293,454**

7. Loans and advances to customers

Loans and advances consisted of the following:

	31 December 2013	31 December 2012
Loans	19,358,963	19,871,836
Overdrafts	5,023,983	3,846,045
Credit Cards	96,137	81,269
Accrued interest	253,893	162,138
Gross outstanding loans and advances	**24,732,976**	**23,961,288**
Allowance for impairment losses on loans and advances	(1,743,101)	(1,186,510)
Net outstanding loans and advances	**22,989,875**	**22,774,778**
Current	11,599,758	8,999,316
Non-current	11,390,117	13,775,462

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

	2013	2012
At 1 January	1,186,510	834,772
Impairment charge for the year	780,435	585,634
Loans written off	(194,400)	(235,364)
Translation effect	(29,444)	1,468
At 31 December	**1,743,101**	**1,186,510**

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

Year ended 31 December 2013	Business	Agriculture	Housing	Consumer	Other	Total
At 1 January	867,716	201,534	77,684	30,301	9,275	1,186,510
Impairment charge	417,270	305,743	27,003	31,488	(1,069)	780,435
Loans written off	(151,315)	(31,914)	(6,863)	(3,437)	(871)	(194,400)
Translation effect	(22,495)	(4,296)	(1,554)	(779)	(320)	(29,444)
At 31 December	**1,111,176**	**471,067**	**96,270**	**57,573**	**7,015**	**1,743,101**

Year ended 31 December 2012	Business	Agriculture	Housing	Consumer	Other	Total
At 1 January	608,557	125,553	77,725	14,688	8,249	834,772
Impairment charge	415,184	114,752	33,016	20,078	2,604	585,634
Loans written off	(157,165)	(38,955)	(33,143)	(4,502)	(1,599)	(235,364)
Translation effect	1,140	184	86	37	21	1,468
At 31 December	**867,716**	**201,534**	**77,684**	**30,301**	**9,275**	**1,186,510**

8. Financial instruments available for sale

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

	31 December 2013	31 December 2012
Treasury bills	4,149,999	3,639,250
Bonds	842,645	840,311
	4,992,644	**4,479,561**
Shares	222	221
Total	**4,992,866**	**4,479,782**
Current	4,992,644	4,479,561
Non-current	222	221

The movement in investments securities may be summarised as follows:

	2013	2012
At 1 January	**4,479,561**	**5,958,417**
Additions	4,179,309	3,639,250
Matured	(3,648,860)	(5,148,983)
Change in accrued interest	(29,342)	23,652
Gains from changes in fair value	11,975	7,225
At 31 December	**4,992,644**	**4,479,561**

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

	2013	2012
At 1 January	**4,413**	**(2,812)**
Additions	26,719	19,300
Disposals	(14,744)	(12,075)
(Additions-Disposals)	**11,975**	**7,225**
At 31 December	**16,388**	**4,413**
Deferred tax on revaluation reserve of AFS Instruments	(2,458)	(441)
Revaluation reserve/(Surplus) – available for sale investments	**13,930**	**3,972**

Treasury bills

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

			31 December 2013			31 December 2012
Maturity	**Principal**	**Accrued interest**	**Carrying value**	**Principal**	**Accrued interest**	**Carrying value**
12 months	4,009,787	140,212	4,149,999	3,469,728	169,522	3,639,250
	4,009,787	**140,212**	**4,149,999**	**3,469,728**	**169,522**	**3,639,250**

The effective interest rates on treasury bills with maturity within 12 months during 2013 fluctuated between 3.66% and 6.53% (2012: 6.83% and 7.68%). Fair value for Albanian Government treasury bills is determined by using the price of the last auction of Bank of Albania for that instrument.

Fair values for foreign bonds have been based on market prices or broker/dealer price quotations.

Details of the available for sale bonds denominated in EUR, outstanding as at 31 December 2013 are as follows:

Issuer		Expiry date	Yield in %	Nominal value	Quoted market price	Interest accrued	Fair value
EIB , FRN	AAA-FITCH	9-Jan-15	0.4212	140,200	140,522	139	140,661
SARLAND , FRN	AAA-FITCH	3-Nov-14	0.4018	280,400	280,652	181	280,833
Berlin Land , FRN	AAA-FITCH	28-Oct-14	0.3930	140,200	140,369	99	140,468
Berlin Land , FRN	AAA-FITCH	28-Oct-14	0.3932	140,200	140,369	99	140,468
EIB ,FRN 01/15/14	AAA-FITCH	15-Jan-14	0.1811	140,200	140,200	15	140,215
				841,200	**842,112**	**533**	**842,645**

Details of the available for sale bonds denominated in EUR, outstanding as at 31 December 2012 are as follows:

Issuer		Expiry date	Yield in %	Nominal value	Quoted market price	Interest accrued	Fair value
EIB , FRN	AAA-FITCH	9-Jan-15	1.165	139,590	140,093	135	140,228
SARLAND , FRN	AAA-FITCH	3-Nov-14	1.319	279,180	279,850	193	280,043
Berlin Land , FRN	AAA-FITCH	28-Oct-14	1.309	139,590	140,079	111	140,190
Berlin Land , FRN	AAA-FITCH	28-Oct-14	1.309	139,590	140,079	111	140,190
EIB ,FRN 01/15/14	AAA-FITCH	15-Jan-14	1.004	139,590	139,646	14	139,660
				837,540	**839,747**	**564**	**840,311**

9. Property and equipment

Property and equipment consists of the following:

	Land and buildings	Computers and electronic equipment	Vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
Cost							
At 1 January 2012	972,225	1,057,218	75,046	506,266	309,955	182,505	3,103,215
Additions	17,713	11,066	24,440	31,246	22,405	45,747	152,616
Disposals	–	(47,244)	(5,037)	(21,991)	(25,357)	(1,058)	(100,687)
Transfer	–	90,227	–	38,842	(1,499)	(130,508)	(2,938)
At 31 December 2012	**989,938**	**1,111,267**	**94,449**	**554,363**	**305,504**	**96,686**	**3,152,206**
Additions	11,454	8,743	4,677	23,888	11,493	22,098	82,354
Disposals	–	(48,280)	(13,720)	(22,321)	(131,858)	(375)	(216,554)
Transfer	23,432	47,033	–	7,627	–	(89,624)	(11,532)
At 31 December 2013	**1,024,824**	**1,118,763**	**85,406**	**563,557**	**185,139**	**28,785**	**3,006,474**
Accumulated depreciation							
At 1 January 2012	(49,561)	(833,938)	(56,676)	(308,134)	(170,595)	–	(1,418,904)
Charge for the year	(22,151)	(106,385)	(13,619)	(57,004)	(47,141)	–	(246,300)
Disposals	–	46,853	4,248	18,548	22,763	–	92,412
At 31 December 2012	**(71,712)**	**(893,470)**	**(66,047)**	**(346,590)**	**(194,973)**	–	**(1,572,792)**
Charge for the year	(21,578)	(97,533)	(11,647)	(52,105)	(36,343)	–	(219,206)
Disposals	–	25,582	13,718	20,016	131,858	–	191,174
At 31 December 2013	**(93,290)**	**(965,421)**	**(63,976)**	**(378,679)**	**(99,458)**	–	**(1,600,824)**
Net book value							
At 31 December 2012	**918,225**	**217,797**	**28,402**	**207,773**	**110,531**	**96,686**	**1,579,414**
At 31 December 2013	**931,534**	**153,342**	**21,430**	**184,878**	**85,681**	**28,785**	**1,405,650**

- **Leasehold improvements**

Leasehold improvements relate to capital expenditures on the branches.

- **Assets pledged as collaterals**

There are no assets pledged as collateral as at 31 December 2013 (2012: Nil).

10. Intangible assets

Intangible assets as at 31 December 2013 are composed as follows:

	Software acquired
Cost	
At 1 January 2012	316,455
Additions	34,307
Transfer	2,938
At 31 December 2012	**353,700**
Additions	34,159
Transfer	11,532
At 31 December 2013	**399,391**
Accumulated amortisation	
At 1 January 2012	(95,696)
Charge for the year	(33,660)
At 31 December 2012	**(129,356)**
Charge for the year	(38,281)
At 31 December 2013	**(167,637)**
Net book value	
At 31 December 2012	**224,344**
At 31 December 2013	**231,754**

11. Investment property

Investment property consists of one property used by the Bank for rental earnings:

	31 December 2013	31 December 2012
Investment property	56,836	54,436
Total	**56,836**	**54,436**

	Investment property
Cost	
At 1 January 2012	–
Additions	55,832
At 31 December 2012	**55,832**
Additions	3,852
At 31 December 2013	**59,684**
Accumulated depreciation	
At 1 January 2012	–
Charge for the year	(1,396)
At 31 December 2012	**(1,396)**
Charge for the year	(1,452)
At 31 December 2013	**(2,848)**
Net book value	
At 31 December 2012	**54,436**
At 31 December 2013	**56,836**

12. Deferred tax assets

The movement on the deferred tax account is as follows:

	31 December 2013	31 December 2012
Deferred tax asset/(liability) at the beginning of the year	21,031	(601)
Effect of tax rate change (note 27)	1920	–
Deferred tax benefit/(expense) in profit or loss relating to the origination and reversal of temporary differences (note 27)	10,466	22,354
Deferred tax to other comprehensive income on available for sale securities	(2,017)	(722)
Deferred income tax liability	**31,401**	**21,031**

As at 31 December 2013 deferred tax assets and liabilities are attributable to the following items:

	31 December 2013	31 December 2012
Deferred tax asset		
Accelerated accounting depreciation	24,232	20,244
Impairment of repossessed property	5,390	–
Other provisions	1,779	787
Net deferred income tax liability	**31,401**	**21,031**

13. Corporate income tax receivable

Corporate income tax receivable is comprised of the following:

	2013	2012
As at 1 January	136,479	132,278
Income tax payments	25,215	29,416
Payment of other tax obligations	(31,701)	–
Corporate income tax for the year	(959)	(25,214)
As at 31 December	**129,033**	**136,479**

Payments of other tax obligations have decreased the credit balance of Tax Receivable and are presented in advance payments since the Bank expect to be reimbursed at ending of legal process.

Tax losses in the Republic of Albania can be carried forward and used against future income tax liabilities for three consecutive financial following the year in which they were reported as such.

14. Other assets

Other assets are comprised of the following:

	31 December 2013	31 December 2012
Receivables from ATM transactions	28,456	27,533
Other debtors	205,754	123,548
Monetary value in transit	221,208	–
Other financial assets	**455,418**	**151,081**
Foreclosed collaterals	596,671	653,782
Prepaid expenses	110,171	79,926
Total other assets	**1,162,260**	**884,789**
Current	565,589	231,007
Non-current	596,671	653,782

Other debtors mainly relate to amounts due from the Bailiff Offices related to the prepayments for collecting the funds from loan customers. Other financial assets are neither past due nor impaired.

The foreclosed collateral is obtained due to legal process and includes land, building and business premises, which are not used by the Bank for its core operations. The Bank recognizes a repossessed property only if the collateral seized legally belongs to the bank. Foreclosed collaterals are treated as inventories by the Bank and are accounted under IFRS 5 – held for sale assets and expected to be sold as soon as practicable. These are initially recognised at fair value as determined by independent evaluators. Subsequently, foreclosed collaterals are measured at the lower of their carrying amount and fair value less costs to sell. The maximum period of holding foreclosed collaterals on the bank's balance sheet is 5 years.

15. Due to banks

Due to other banks are composed as follows:

	31 December 2013	31 December 2012
Borrowings from Central Bank	614,687	219,247
Borrowings from resident banks	130,064	950,521
Other	14,544	–
Total	**759,295**	**1,169,768**

Borrowings from Central Bank as at 31 December 2013 is comprised as follows:

	ALL '000 equivalent	Maturity	Rate of interest (p.a.)
REVREPO1/261213	175,625	8 days	3.02%
REVREPO2/261213	175,625	8 days	3.04%
REVREPO3/261213	175,625	8 days	3.05%
REVREPO4/261213	87,812	8 days	3.00%
Total	**614,687**		

Borrowing from resident banks as at 31 December 2013 is comprised as follows:

	ALL '000 equivalent	Maturity	Rate of interest (p.a.)
Veneto Banka	130,000	8 days	3.00%
Accrued interest	64		
Total	**130,064**		

Other accounts include amount received in an escrow account at a bank for letters of credit and guarantees. As at 31 December 2013, 100% of deposits (31 December 2012: 100%) are held with banks of OECD countries and have contractual maturities up to three months.

Borrowings from resident banks as at 31 December 2012 are comprised of the Reverse Repurchase Agreements from Central Bank and from other resident banks. The details are as follows:

	ALL '000 equivalent	Maturity	Rate of interest (p.a.)
REVREPO1/271212	131,476	7 days	4.04%
REVREPO2/271212	87,651	7 days	4.02%
Accrued interest	120		
Total	**219,247**		

	ALL '000 equivalent	Maturity	Rate of interest (p.a.)
Raiffeisen Bank Albania	550,000	7 days	4.00%
First Investement Bank	400,000	7 days	4.00%
Total Accrued interest	521		
Total	**950,521**		

16. Due to customers

Customer accounts for enterprises, private entrepreneurs and individuals consisted of the following:

	31 December 2013	31 December 2012
Current accounts		
Foreign currency	2,997,913	3,031,500
Local currency	2,811,784	2,951,492
Savings accounts		
Foreign currency	2,430,024	2,077,428
Local currency	3,325,378	2,058,903
Term deposits		
Foreign currency	5,985,133	6,787,358
Local currency	13,649,017	13,528,636
Other customer account		
Foreign currency	220,988	380,093
Local currency	529,845	545,700
Accrued interest	492,024	473,915
Total	**32,442,106**	**31,835,025**
Current	31,532,148	30,816,498
Non-current	909,958	1,018,527

Savings accounts in Lek bear interest at 4.31% per annum (2012: 4.30%), while those in foreign currencies bear interest at average level at 1% per annum in Euro, 0.4% in USD and 0.1% in GBP and CHF (2012: 1% per annum in Euro, 0.4% in Dollars and 0.1% in GBP and CHF). Other customer accounts are accounts pledged by customers as cash collateral. They bear interest rates at the same level as term deposits.

For term deposits, the interest rates applied as of 31 December 2013 ranged as follows:

in %	1 month	3–6 months	12 months	15–60 months
ALL	0.33-1.03	1.41-4.27	4.91-5.75	5.37-8.34
USD	0.05-0.22	0.38-0.82	1.12-1.22	1.42-2.86
EUR	0.04-0.53	0.36-1.81	1.69-2.23	2.03-4.15

For term deposits, the rates applied as of 31 December 2012 ranged as follows:

in %	1 month	3–6 months	12 months	15–60 months
ALL	0.74-3.45	1.96-4.34	5.36-5.92	4.18-6.50
USD	0.20-0.50	0.37-1.24	1.11-1.50	1.50-1.60
EUR	0.50-0.75	1.29-1.87	2.20-2.48	2.30-3.00

17. Other borrowed funds

Other borrowed funds are composed as follows:

	31 December 2013	31 December 2012
EFSE	910,261	978,894
Total	**910,261**	**978,894**
Current	73,139	55,653
Non-current	837,122	923,241

The borrowed funds from EFSE (European Fund for Southeast Europe) are comprised as follows:

	31 December 2013	31 December 2012
Loan A	790,562	820,331
Loan B	117,826	156,479
Accrued interest	1,873	2,084
Total	**910,261**	**978,894**

Loan A is comprised of four loans. Each bearing fixed interest at 4% per annum. The repayments of principal occur on a semi-annual basis payable on 30 June and 30 December of each year. The Bank has initially borrowed these funds from FEFAD Foundation, which funds were transferred to EFSE based on the "Agreement on the transfer and contribution, between the Republic of Albania, represented by the Ministry of Finance, Foundation for Funding and Development of Companies (FEFAD) and the European Fund for Southeast Europe (EFSE)" ratified by Law No. 10045, dated December 2008, effective from January 2009. The purpose of these loans was to finance lending to small and medium sized companies in Albania. The loans are repayable in 60 equal semi-annual instalments, commencing on 30 December 2005 and 2008.

Loan B consist in energy efficiency loan disbursed during year 2009, with the purpose of lending to businesses and individuals investing in energy efficiency projects. Energy efficiency loan bears an interest rate of Euribor 6 months + 4.2% and a maturity of 7 years. Interest rate's spread of the Energy efficiency loan is changed from 4.2% to 3.9% starting from September 2010. The repayments of principal occur on a semi-annual basis payable on 22 March and 22 September of each year.

The Bank obtains long term financing from institutions sponsored by the governments of the OECD Countries at interest rates at which such institutions ordinarily lend in Albania and other emerging markets and which may be lower than rates at which the Bank could source the funds from other local lenders. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are at arm's length transactions, management's judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market segment.

18. Subordinated debt

The balance of subordinated debt at 31 December 2013 is as follows:

	31 December 2013	31 December 2012
Subordinated Debt		
DWM-SNS Institutional Microfinance Fund II	557,094	554,001
ResponsAbility SIVAC (Lux)	210,300	209,385
Credit Suisse Microfinance Fund Management Company	490,700	488,565
Accrued interest	49,935	49,682
Total	**1,308,029**	**1,301,633**
Current	49,935	49,682
Non-current	1,258,094	1,251,951

On 28 September 2009, the Bank has received two subordinated promissory notes of EUR 1.5 and EUR 3.5 million, from ResponsAbility SIVAC (Luxembourg) and Credit Suisse Microfinance Fund Management Company (Luxembourg), respectively. Both subordinated promissory notes bear a fixed interest of 10.41% until 28 September 2014.

The interest is payable on a semi-annual bases payable on 28 March and 28 September of each year, and the principal is payable on maturity date.

On 29 October 2009, the Bank has received from DWM-SNS Institutional Microfinance Fund II, incorporated in Connecticut, USA. a subordinated debt of EUR 4 million, bearing a fixed interest of 10.97% until 29 October 2015. The interest is payable on a semi-annual bases payable on the last business date of January and July of each year, and the principal is payable on maturity date.

19. Other liabilities

Other liabilities are comprised of the following:

	31 December 2013	31 December 2012
Sundry creditors	130,060	156,957
Payments in transit	43,377	22,377
Accrued expenses	35,592	51,108
Monetary value in transit	–	902
Other financial liabilities	**209,029**	**231,344**
Tax and social charges	25,405	25,264
Other provisions	11,858	7,874
Total	**246,292**	**264,482**
Current	246,292	264,482
Non-current	–	–

20. Share capital and statutory reserves

At 31 December 2013, the authorised and issued share capital of the Bank was comprised of 347,750 shares or EUR 25,698,725 and is summarized as follows (in ALL equivalent):

	Number of shares	31 December 2013 Equivalent in ALL	Number of shares	31 December 2012 Equivalent in ALL
ProCredit Holding AG & Co. KGaA	347,750	3,387,148	307,155	2,965,682
	347,750	**3,387,148**	**307,155**	**2,965,682**

Statutory reserves

The statutory reserves were created based on the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999, which states that commercial banks operating in Albania should create general reserves at 20% of statutory profit after taxes and before dividends. Additionally, a legal reserve created as 5% of statutory profit after taxes and before dividend is required by Law No. 9901, dated 14 April 2008, “On entrepreneurs and commercial companies”.

21. Interest and similar income

Interest income was earned on the following assets:

	31 December 2013	Year ended 31 December 2012
Loans and advances to customers	3,082,359	3,185,846
Financial instruments available for sale	221,884	338,877
Loans and advances to financial institutions	62,959	79,673
Total	**3,367,202**	**3,604,396**

22. Interest and similar expense

Interest expense was incurred on the following liabilities:

	31 December 2013	Year ended 31 December 2012
Due to customers	996,462	1,000,335
Interest expenses on subordinated debts	150,509	149,822
Other borrowed funds	43,132	46,971
Other	33,994	67,710
Total	**1,224,097**	**1,264,838**

23. Fee and commission income

Fees and commissions income were comprised as follows:

	31 December 2013	Year ended 31 December 2012
Money transfer and cheques	91,349	86,271
Account maintenance fees	132,137	122,925
Card fees	88,181	77,489
Letters of credit and guarantees	5,229	12,807
Banking services fees	33,025	28,302
Other	21,319	30,706
Total	**371,240**	**358,500**

24. Fee and commission expense

	31 December 2013	Year ended 31 December 2012
Transfer commission	10,499	11,545
Cards fees expense	61,398	57,565
Other	8,837	4,129
Total	**80,734**	**73,239**

25. Other operating income

	31 December 2013	Year ended 31 December 2012
Repayment of loans previously written off	56,150	69,668
Gain on sale of fixed assets	6,485	2,127
Reversal of other Provisions	4,145	6,004
Other	29,826	25,136
Total	**96,606**	**102,935**

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

26. Other operating expenses

	31 December 2013	Year ended 31 December 2012
Personnel costs (note 27)	670,424	698,124
Rent expense	220,660	247,696
Office supplies	18,680	23,647
Transportation and business trip expenses	62,280	82,306
Consultancy, legal fees and other services	145,723	154,725
Training	23,785	41,564
Maintenance and repairs	130,471	127,014
Telephone and electricity	127,941	158,115
Security services	31,159	39,931
Insurance	17,566	19,898
Deposit insurance ASD	102,600	102,227
Advertising	79,140	97,458
Depreciation of fixed assets	220,660	247,696
Amortization of intangible assets	38,281	33,660
Other operating expenses	137,213	107,212
Total	**1,987,730**	**2,148,205**

27. Personnel expenses

	31 December 2013	Year ended 31 December 2012
Salaries	579,854	599,850
Social insurance	17,214	18,978
Defined contribution plan	59,021	65,069
Other	14,335	14,227
Total	**670,424**	**698,124**

28. Income tax expense

Income tax for the years ended 31 December 2013 is composed as follows:

	31 December 2013	Year ended 31 December 2012
Current tax (10%)	959	25,214
Effect of tax rate change	(1,920)	–
Deferred tax expense/ (benefit) (15%) (note12)	(10,466)	(22,354)
Income tax expense	**(11,427)**	**2,860**

Income tax in Albania is assessed at the rate of 10% (2012:10%) of taxable income.

Deferred tax expense/(benefit) is adjusted for the future changes to tax rate that have been substantively enacted by the end of year 2013. The Corporate Income Tax rate for legal entities becomes 15% percent starting from 1st January 2014 (2012: Tax rate 10%).

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

	31 December 2013	Year ended 31 December 2012
Loss/Profit before taxes	(178,731)	62,684
Theoretical tax (credit) calculated at 10% (2012:10%)	(17,873)	6,268
Non-deductible expenses	17,939	13,102
Effect of translation of share capital for statutory purposes	(12,976)	(14,981)
Effect of tax rate change	(1,920)	–
Other	3,403	(1,529)
Income tax expense	**(11,427)**	**2,860**

According to Albanian Tax legislation the Tax authorities have right to examine tax returns in 5 years following submission of the return.

Non-deductible expenses relate to expenditure that is not allowable to be deducted in calculating taxable profit/loss and therefore current income tax expense.

Effect of translation of share capital relates to the fact that share capital denominated in foreign currency is revaluated under statutory accounting rules while carried at historical cost for IFRS. The impact is the result of the reversal of the foreign currency translation under IFRSs.

29. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31 December 2013	31 December 2012
Cash and cash equivalents (note 5)	6,066,433	4,494,403
Loans and advances to banks and other financial institutions (note 6)	523,360	2,293,454
Total	**6,589,793**	**6,787,857**

The statutory reserve with the Central Bank is not a component of cash and cash equivalents.

30. Commitments and contingencies

The balance of credit related commitments is comprised of the following:

	31 December 2013	31 December 2012
Guarantees in favour of customers	728,995	683,098
Credit commitments in favour of customers	2,096,251	2,071,707
Securities given as a guarantee for a credit or refinancing	700,000	250,000
Other	537,657	319,254
Total	**4,062,903**	**3,324,059**

Guarantees and letters of credit

The Bank issues guarantees and letters of credit in favour of its customers. These instruments bear a credit risk similar to that of loans granted.

Commitments to extend credit in favour of customers and credit institutions represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses.

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 2013 is remote.

Lease commitments

The Bank leases premises to perform its operations. Lease commitments related to these leases are composed as follows:

	31 December 2013	31 December 2012
Not later than 1 year	144,827	242,551
Later than 1 year and not later than 5 years	426,678	722,612
Later than 5 years	83,748	199,858
Total	**655,253**	**1,165,021**

31. Related party transactions

During 2013 the Bank entered into the following related party transactions with several banks in the ProCredit Holding AG & Co. KGaA AG.

The ultimate parent of the ProCredit Bank sh.a. is ProCredit Holding AG & Co. KGaA AG, Germany.

In addition, the Bank has a management services agreement with ProCredit Holding AG & Co. KGaA AG, for providing the Bank with personnel who are the high level management of the Bank (one Member of the Management Board). During the year ended 31 December 2013, ProCredit Holding AG & Co. KGaA AG invoiced to ProCredit Bank Sh.a an amount of ALL 69,662 thousand (2012: ALL 77,195 thousand) as management fees.

Other key management short-term benefits are presented below:

	2013	2012
Salaries	25,695	32,556
Bonuses	743	1,823
At 31 December	**26,438**	**34,379**

A summary of related party transactions is as follows:

Year ended 31 December 2013	ProCredit Holding AG & Co. KGaA	Other entities of ProCredit Group	Total
Total cash and loans to financial institutions at end of the year	–	2,842,766	**2,842,766**
Other Assets outstanding at end of the year	8,711	10,648	**19,359**
Other Liabilities outstanding at end of the year	2,956	3,734	**6,690**
Income for year ending	–	2,598	**2,598**
Other expense	81,072	103,394	**184,466**

A summary of related party transactions are as follows as at and for the year ended 31 December 2012:

Year ended 31 December 2012	ProCredit Holding AG & Co. KGaA	Other entities of ProCredit Group	Commerzbank AG	Total
Total cash and loans to financial institutions at end of the year	–	994,938	211,796	**1,206,734**
Other Assets outstanding at end of the year	527	12,036	–	**12,563**
Other Liabilities outstanding at end of the year	–	4,238	–	**4,238**
Income for year ending	–	22	–	**22**
Other expense	83,997	114,033	3	**198,033**

32. Fair Values of financial assets and liabilities

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 observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows::

				2013	2012
	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total	Total
Loans to banks	–	544,613	–	544,613	2,295,366
Loans to customers	–	22,989,875	–	22,989,875	22,774,778
Financial Instruments available for sale	–	4,992,866	–	4,992,866	4,479,782
Due to banks and financial institutions	–	2,977,585	–	2,977,585	3,450,295
Due to customers	–	32,442,106	–	32,442,106	31,835,025

Cash and cash equivalents

Cash and cash equivalents include inter-bank placements and items in the course of collection. As these balances are short term and at floating rates their fair value is considered to equate to their carrying amount.

Investment securities

Investment securities include treasury bills and government bonds. The fair value for these investment securities has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Loans and advances to customers

Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short term nature or underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Loans to banks /Due to banks and financial institutions

The estimated fair value of loans and advances have an estimated fair value approximately equal to their carrying amount because of either their short-term nature and underlying interest rates, which approximate market rates.

Due to customers

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand.

33. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013 and 31 December 2012:

2013	Loans and receivables	Financial instruments available for sale	Total
Cash and balances with Central Bank	8,815,821	–	8,815,821
Loans and advances to banks and other financial institutions	544,613	–	544,613
Available-for-sale financial assets	–	4,992,866	**4,992,866**
Loans and advances to customers	22,989,875	–	22,989,875
Other financial assets	455,419	–	455,418
Total financial assets	**32,805,728**	**4,992,866**	**37,798,593**
Non-financial assets			**2,561,516**
Total assets			**40,360,109**

2012	Loans and receivables	Financial instruments available for sale	Total
Cash and balances with Central Bank	7,529,390	–	**7,529,390**
Loans and advances to banks and other financial institutions	2,295,366	–	**2,295,366**
Available-for-sale financial assets	–	4,479,782	**4,479,782**
Loans and advances to customers	22,774,778	–	**22,774,778**
Other financial assets	147,925	–	**147,925**
Total financial assets	**32,747,459**	**4,479,782**	**37,227,241**
Non-financial assets			**2,752,568**
Total assets			**39,979,809**

As of 31 December 2013 and 31 December 2012 Bank had no assets designated at fair value through profit or loss categories.

As of 31 December 2013 and 31 December 2012 all of the Bank's financial liabilities were carried at amortised cost.

34. Events after the reporting date

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

Contact Addresses

Head Office

ProCredit Bank sh.a.
Place of Registration: Tiranë
No. of Court Regist: 20797/11.02.1999
KIB: 20911005
Nipt: J 91524011J
Legal address: Rr. "Dritan Hoxha". Nd. 92,
H. 15, Njësia Bashkiake Nr. 11,Tirana.
P.O. Box 1026
Tel.: +355 (0) 42 389 300
Fax: +355 (0) 42 233 918
Fax: +355 (0) 42 233 481 (SWIFT)
Fax: +355 (0) 42 222 568 (Payments)
Call Center:
+355 (0) 42 389 389 (for general information)
+355 (0) 4 22 30 499 (Cards and ATM issue)
informacion@procreditbank.com.al
www.procreditbank.com.al

Branches

Tirana Region

Tirana e Re Branch
Rr. "Sami Frashëri", Tiranë
Tel: +355 (0) 42 389 303
Fax: +355 (0) 42 220 774

Medrese Agency
Rr. "Ferit Xhajko"
Ndërtesa 128, H. 2
Njësia Bashkiake nr. 8, kodi Postar 1017, Tiranë
Tel: +355 (0) 42 389 302
Fax: +355 (0) 42 340 105

Piazza Agency
Rr. "Ded Gjo Luli ", pranë Muzeut Kombëtar,
Tiranë
Tel: +355 (0) 42 389 304

Lapraka Branch
Blloku "Coloseum", Gintash, Laprakë
Tel: + 355 (0) 42 389 308
Fax: + 355 (0) 42 389 358

Rruga e Kavajës Agency
Rruga e Kavajës, Tiranë
Tel: +355 (0) 42 389 309

Kombinati Agency
Rr. "Llazi Miho" Nd.95 H. 7
Njësia Bashkiake Nr. 6 Kodi Postar 1027, Tiranë
Tel: +355 (0) 42 389 311

Komuna e Parisit Agency
Rr. "Medar Shtylla", Nd.40, H. 1,
Njësia Bashkiake Nr. 5, Kodi postar 1022, Tiranë
Tel: +355 (0) 42 389 312
Fax: +355 (0) 42 220 774

Kamza Agency
Qendër Kamëz, përballë Bashkisë
Tel : +355 (0) 42 389 310
Fax: +355 (0) 42 237 958

Liceu Agency
Rr. "Ismail Qemali" pranë Liceut Artistik
Tel : +355 (0) 42 389 306

Head Office Branch
Rr. "Dritan Hoxha"
Nd. 92, H. 15, Njësia Bashkiake Nr. 11,
Kodi Postar 1026, Tiranë
Tel: +355 4 2 389 300
Fax: +355 4 22 33 918

Casa Italia Agency
Commercial Center Casa Italia, Km. 0,
Kthesa e Kamzës, Komuna Kashar, Tiranë

TEG Agency
Commercial Center Tirana East Gate,
Autostrada Tiranë-Elbasan, Km. 0, Tiranë

West Region

Durrësi 2 Agency
Lagjja Nr. 7, Rr. "Aleksandër Goga" Durrës
Tel: +355 (0) 52 293 011

Durrësi Porti Agency
Brenda ambienteve të portit Durrës
Tel: +355 (0) 52 293 012

Durrësi Branch
Lagjja 3, Rr. "Skënderbej"
Pranë Qendrës Monum (ose pranë Portit)
Tel: +355 (0) 52 293 013
Fax: +355 (0) 52 227 638

Shkozeti Branch (Durrës)
Lagjja 14, Rr. "Tirana", Stacioni 1, Shkozet, Durrës
Tel: +355 (0) 52 293 014

As at 31 December 2013

Berati Branch
Bulevardi “Republika”,
Lagjja “22 Tetori”, Berat
Tel: +355 (0) 322 36 344
Fax.: +355 (0) 322 36 345

Lushnja Branch
Lagjja “Xhevdet Nepravishta”
Shëtitorja Kryesore, pranë Poliklinikës, Lushnje
Tel: + 355 (0) 352 25 681
Fax: +355 (0) 352 256 83

East Region

Elbasani Branch
Bulevardi “Qemal Stafa”, Lagjja “Dyli Haxhire”,
P. 10/1 , Elbasan
Tel: +355 (0) 542 532 17
Fax: +355 (0) 542 563 76

Bilisht Agency
Unaza Bilisht, Kryqëzimi Bilisht
Miras, Kapshticë
Tel: +355 (0) 811 238 81

Pogradeci Branch
Qendra “Kapri”
Rr. “Rreshit Collaku”, Lagjja 1, Pogradec
Tel: +355 (0) 83 225 577
Fax: +355 (0) 83 224 423

Korça Branch
Bul. “Shën Gjergji”, Nr.7, L.7, Korçë
Tel: +355 (0) 82 243 754
Fax: + 355 (0) 82242399

Korça Agency
Rruga “Kiço Greco”, Lagjja Nr. 9, Korçë
Tel: +355 (0) 82 243 754

South Region

Fieri Branch
Lagjja “11 janari”, Rr. “Ramis Aranitasi”, Fier
Tel: +355 (0) 34 220 021
Fax: +355 (0) 34 233 168

Vlora Branch
Lagjja “Hajro Çakërri”, pranë Sheshit të Flamurit, Vlorë
Tel: +355 (0) 33 225 781
Fax: +355 (0) 33 225 783

Gjirokastra Branch
Lagjja “18 Shtatori”, Gjirokastër
Tel: +355 (0) 84 268 641
Fax: +355 (0) 84 268 643

Saranda Agency
Lagjja Nr. 1, Sheshi Limanit, Sarandë
Tel: +355 (0) 85 226 156
Fax: +355 (0) 85 227 121

North Region

Shkodra Branch
Bulevardi “Zogu I”, Nr. 7, Shkodër
Tel: +355 (0) 22 242 115
Fax: +355 (0) 22 243 710

Lezha Branch
Lagjja “Besëlidhja “
Shëtitorja “Gjergj Fishta”, Lezhë
Tel: +355 (0) 21 522 100
Fax: +355 (0) 21 523 614

As at 31 December 2013