ProCredit Bank

Albania

Annual Report 2018

Key Figures

	EUR '000		ALL '000	
	2018	2017	2018	2017
Balance Sheet Data				
Total Assets	258,996	256,968	31,965,256	34,163,812
Gross Loan Portfolio	194,795	181,535	24,041,608	24,135,031
Business Clients Loan Portfolio	178,770	164,352	22,063,827	21,850,542
Private Clients Loan Portfolio	16,025	17,183	1,977,781	2,284,489
Loan Loss Provision	(13,888)	(10,199)	(1,714,047)	(1,356,000)
Net Loan Portfolio	180,907	171,335	22,327,561	22,779,031
Customer Deposits	167,487	180,867	20,671,213	24,046,245
Liabilities to Banks and Financial Institutions (excluding PCH)	4,912	4,137	606,204	549,965
Total Equity	25,388	32,261	3,133,343	4,289,114
Income Statement				
Operating Income	5,541	6,578	706,939	882,356
Operating Expenses	9,878	9,901	1,260,186	1,327,960
Operating Profit Before Tax	(5,670)	(4,338)	(723,394)	(581,834)
Net Profit	(6,141)	(3,998)	(783,528)	(536,204)
Key Ratios				
Cost/Income Ratio	178.26%	150.50%		
Return on Equity (ROE)	-21.31%	-11.75%		
Capital Ratio	13.75%	13.42%		
Operational Statistics				
Number of Clients	21,002	41,441		
of which Business Clients	3,857	7,953		
Number of Loans Outstanding	3,494	6,181		
Number of Deposit Accounts	40,244	75,520		
Number of Staff	143	177		
Number of Branches and Outlets	6	7		

Exchange rate as of December 31:
2018: EUR 1 = ALL 123.42
2017: EUR 1 = ALL 132.95

Average exchange rate for the period:
2018: EUR 1 = ALL 127.58
2017: EUR 1 = ALL 134.13

Mission Statement

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

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

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

Management of ProCredit Bank Albania as of 31 December 2018:

- *Adela Leka – Spokesperson of the Management Board*
- *Ardiola Hristiç – Member of the Management Board*
- *Agan Azemi – Member of the Management Board*
- *Mirsad Haliti – Member of the Management Board*

Board of Directors as of 31 December 2018:

- *Borislav Kostadinov, Chairman*
- *Wolfgang Bertelsmeier*
- *Jordan Damcevski*
- *Robert Scott Richards*
- *Jovanka Joleska Poposka*

Comprehensive Statement

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

1. Remuneration policy

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

Both members of Management Board of ProCredit Bank, as the highest executive officers, in accordance with the risk profile of the Bank, are paid on a monthly basis for an aggregated yearly amount of ALL 18 306 000. The bank's remuneration policy consists of monthly salaries which are set according to the job position, experience, responsibilities and tasks of each employee and does not provide for bonuses.

Other forms of compensation for employees include:

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

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

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

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

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

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

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

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

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

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

Risk tolerance / appetite of ProCredit Bank Albania

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Statements

For the year ended 31 December 2018 .
Prepared in accordance with International Financial Reporting Standards.

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Independent Auditor's Report

To the Shareholder of ProCredit Bank sh.a.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ProCredit Bank sh.a (the "Bank") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2018;
- the statement of financial position as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

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Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Audit sh.p.k.

PricewaterhouseCoopers Audit sh.p.k.
3 July 2019
Tirana, Albania

Jonid Lamllari
Statutory Auditor

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December

		In ALL '000		In EUR '000	
Assets	**Notes**	**2018**	**2017**	**2018**	**2017**
Cash and balances with Central Bank	16	5,951,907	6,710,872	48,225	50,477
Loans and advances to financial institutions	17	19,020	119,326	154	898
Loans and advances to customers	18	22,327,562	22,779,031	180,907	171,335
Financial assets available-for-sale	19	-	1,831,349	-	13,775
Debt securities held at fair value through other comprehensive income	19	1,632,790	-	13,230	-
Deferred income tax assets	15	4,575	64,980	37	489
Corporate income tax receivable		84,260	55,154	683	415
Other assets	20	849,595	1,287,503	6,884	9,684
Investment property	21	34,982	92,057	283	692
Property and equipment	22	1,006,496	1,121,939	8,155	8,439
Intangible assets	23	54,068	101,601	438	764
Total assets		**31,965,255**	**34,163,812**	**258,996**	**256,968**
Liabilities					
Due to banks	24	3,821,376	2,879,406	30,962	21,658
Due to customers	25	20,671,213	24,046,245	167,487	180,867
Other borrowed funds		3,474,113	1,860,486	28,149	13,994
Other liabilities	27	179,158	364,592	1,452	2,954
Other Provisions	27	49,315	38,064	400	75
Subordinated debt	26	636,738	685,905	5,159	5,159
Total liabilities		**28,831,913**	**29,874,698**	**233,608**	**224,707**
Shareholders' equity					
Share capital	28	3,763,884	3,387,148	30,497	25,477
(Accumulated deficit)/Retained earnings	28	(1,315,585)	221,320	(10,639)	1,706
Legal reserves	28	708,110	708,110	5,737	5,326
Currency translation reserve		-	-	(20)	(43)
Revaluation reserve for available-for-sale securities	19	-	(27,464)	-	(205)
Revaluation reserve for debt securities at fair value through other comprehensive income	19	(23,067)	-	(187)	-
Total shareholders' equity		**3,133,342**	**4,289,114**	**25,388**	**32,261**
Total liabilities and shareholders' equity		**31,965,255**	**34,163,812**	**258,996**	**256,968**

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

These financial statements have been approved by Management on 28 June 2019 and signed on their behalf by:

Mirsad Haliti
Member of Management Board

Agan Azemi
Member of Management Board

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 62.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

		In ALL '000		*In EUR '000*	
	Notes	**2018**	**2017**	**2018**	**2017**
Interest income	10	1,444,349	1,340,420	11,321	9,993
Interest expense	10	(250,711)	(200,764)	(1,965)	(1,497)
Net interest income		**1,193,638**	**1,139,656**	**9,356**	**8,496**
Allowance for expected credit losses	18	(379,777)	(162,203)	(2,977)	(1,209)
Net interest income after provision for impairment of loans		**813,861**	**977,453**	**6,379**	**7,287**
Fee and commission income	11	320,924	268,909	2,515	2,005
Fee and commission expense	11	(112,610)	(122,934)	(883)	(917)
Other operating income	12	162,493	92,888	1,274	693
Foreign exchange translation gains less losses		(83,530)	(30,855)	(653)	(230)
Personnel expense	14	(366,220)	(424,834)	(2,871)	(3,167)
Other operating expenses	13	(1,458,312)	(1,342,461)	(11,431)	(10,009)
Loss before income tax		**(723,394)**	**(581,834)**	**(5,670)**	**(4,338)**
Income tax expense/(credit)	15	(60,134)	45,630	(471)	340
Loss for the year		**(783,528)**	**(536,204)**	**(6,141)**	**(3,998)**
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Revaluation of available-for-sale financial assets	19	-	(13,283)	-	(100)
Debt securities at FVOCI		1,814	-	14	-
Deferred tax	15	(272)	1,992	(2)	15
Total comprehensive loss for the year		**(781,986)**	**(547,495)**	**(6,129)**	**(4,083)**

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

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 62.

Statement of Changes in Equity

For the year ended 31 December

In ALL '000	Share Capital	Legal Reserve	Revaluation Reserve/(Deficit)	Retained Earnings	Total
Balance at 1 January 2017	**3,387,148**	**707,672**	**(16,173)**	**757,962**	**4,836,609**
Total comprehensive loss for the year					
Loss for the year	-	-	-	(536,204)	(536,204)
Available-for-sale financial assets	-	-	(13,283)	-	(13,283)
Deferred tax	-	-	1,992	-	1,992
Total comprehensive loss	**-**	**-**	**(11,291)**	**(536,204)**	**(547,495**
Appropriation of retained earnings	-	438	-	(438)	-
Balance at 31 December 2017 as previously reported	**3,387,148**	**708,110**	**(27,464)**	**221,320**	**4,289,114**
Impact of new or revised accounting standards	-	-	-	(753,377)	(753,377)
Adjusted balance at 1 January 2018	**3,387,148**	**708,110**	**(27,464)**	**(532,056)**	**3,535,738**
Total comprehensive loss for the year					
Loss for the year	-	-	-	(783,528)	(783,528)
Debt securities at fair value through other comprehensive income	-	-	4,669	-	4,669
Deferred tax	-	-	(272)	-	(272)
Total comprehensive loss	**-**	**-**	**4,397**	**(783,528)**	**(779,131)**
Transactions with owners recorded directly in equity					
Increase in Paid Capital	376,736	-	-	-	376,736
Balance at 31 December 2018	**3,763,884**	**708,110**	**(23,067)**	**(1,315,585)**	**3,133,342**

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

Statement of Cash Flows

For the year ended 31 December

		In ALL '000		In EUR '000	
	Notes	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities					
Loss before income tax		(723,394)	(581,834)	(5,670)	(4,338)
Adjustments to reconcile profit before income tax to net cash flows from operating activities					
Depreciation of property and equipment and investment property	21,22	110,538	152,098	896	1,144
Amortization of intangible assets	23	27,352	31,690	222	238
Impairment charge for credit losses	18	379,777	162,203	3,077	1,220
Interest income	10	(1,444,349)	(1,340,420)	(11,703)	(10,082)
Interest expense	10	250,711	200,764	2,031	1,510
Loss/(gain) on disposal of assets		(8,913)	(776)	(70)	(6)
Charge of other provisions		136,972	75,450	1,110	568
Income tax credited		(29,106)	-	(236)	-
		(1,300,412)	(1,300,825)	(10,343)	(9,746)
Changes in operating assets and liabilities:					
Compulsory reserve		351,178	322,382	2,845	2,425
Loans and advances to financial institutions		100,306	543,774	813	4,090
Loans and advances to customers		(712,970)	(3,066,593)	(5,777)	(23,066)
Other assets		106,216	122,001	861	918
Repossessed property		230,345	336,509	1,866	2,531
Due to banks		938,901	2,735,035	7,607	20,572
Due to customers		(3,344,056)	(3,231,236)	(27,095)	(24,304)
Other liabilities		(181,952)	117,247	(1,474)	882
		(3,812,444)	(3,421,706)	(30,697)	(25,698)
Interest received		1,481,092	1,360,295	12,000	10,232
Interest paid		(259,088)	(221,851)	(2,099)	(1,669)
Income tax paid		-	33,037	-	248
Net cash used in operating activities		**(2,590,440)**	**(2,250,225)**	**(20,795)**	**(16,887)**
Cash flows from investing activities					
Acquisition of debt securities at fair value through other comprehensive income		(1,632,790)	-	(13,230)	-
Acquisition of investment securities available for sale		-	(1,424,507)	-	(10,715)
Proceeds from matured financial assets available-for-sale		1,830,941	2,452,526	14,835	18,447
Proceeds from sale of premises and equipment		95,740	59,025	776	444
Acquisition/disposal of intangible assets		-	(1,353)	-	(10)
Acquisition/disposal of premises and equipment		(46,862)	(67,816)	(380)	(510)
Net cash from investing activities		**247,029**	**1,017,875**	**2,002**	**7,656**
Cash flows from financing activities					
Repayment of subordinated debt		(47,650)	(11,400)	(386)	(86)
Capital Increase		376,737	–	–	–
Dividend paid		–	–	–	–
Other borrowed funds		1,592,581	1,859,500	12,904	13,986
Net cash used in financing activities		**1,921,668**	**1,848,100**	**12,518**	**13,900**
Translation differences		–	–	5,536	462
Decrease in cash and cash equivalents		**(421,743)**	**615,750**	**(740)**	**5,131**
Cash and cash equivalents at beginning of the year		**4,600,949**	**3,985,199**	**34,602**	**29,471**
Cash and cash equivalents at end of the year	**16**	**4,179,206**	**4,600,949**	**33,862**	**34,602**

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

Notes to the Financial Statements

For the year ended 31 December 2018

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

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for ProCredit Bank Sh.a. (the "Bank").

The Bank, originally known as FEFAD Bank, was incorporated and domiciled in Albania since February 1999. The Bank is licensed to operate in retail banking activity in Albania in accordance with Law No. 9662 dated 18 December 2006 "On Banks in the Republic of Albania", as amended. The Bank is a joint stock company limited by shares set up in accordance with Law 9901, dated 14 April 2008 "On entrepreneurs and commercial companies".

As at 31 December 2018 and 2017, the immediate and ultimate parent company of the Bank is ProCredit Holding AG & Co. KGaA holding 100% of the shares.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Albania. The Bank operates under a full banking licence issued by the central Bank of Albania. The Bank participates in the state deposit insurance scheme managed by the Albanian Deposit Insurance Agency.

As at 31 December 2018 the Bank was operating from Head Office in Tirana, 1 branch, 4 service points- and 5 Self Service areas (24/7 Zones) located in Tirana, Durres, Korçe and Shkoder.

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

Board of Directors

Board of Directors members as of December 2018 are:

- Borislav Kostadinov, Chairman of the Board
- Robert Scott Richards
- Wolfgang Bertelsmeier
- Jovanka Joleska Popovska
- Jordan Damcevski

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

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

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

The Bank's CAR ratio at 31 December 2018 was 13.75% while the required minimum CAR for banks in Albania is 12%. During the year ended 31 December 2018, the Bank incurred losses of ALL 724,475 thousand. Management expects that the Bank will generate profits starting from the year ending 31 December 2020 and continue to meet the minimum CAR requirements and continue as a going concern for the foreseeable future. Support from the Group is also available on a need basis. In August 2019, the Group is expected to further increase subordinated debt by an additional EUR 2,000 thousand in order to ensure compliance of the Bank with capital requirements.

Interest income and expense

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

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

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

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

Fees and commissions

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

Financial instruments - key measurement terms

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

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

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

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

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

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between

parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI

feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 6for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 6 For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 6 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not liabilities are classified as subsequently measured at AC, except for: (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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

limit the exposure to credit losses to such contractual notice period.

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

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

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

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

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

Financial liabilities – measurement categories. Financial

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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

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

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

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

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

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss.

An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

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

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

Impairment allowances are determined based on the forward-looking ECL models. Note 6 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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

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

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

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

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

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

Investment property

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

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

Property and equipment

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

Intangible assets

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

Operating leases

Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks.

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

Customer accounts.

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

Other borrowed funds.

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

Subordinated debt.

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

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

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

Employee benefits

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

Provisions for liabilities and charges

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

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

Trade and other payables

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

When managing the foreign exchange position the Bank also takes into consideration the fact that equity is denominated in EUR.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Foreign currency transactions

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

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

Presentation in EUR

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

The statement of financial position at 31 December 2018 has been translated at the official rate of BOA as at 31 December 2018 of ALL 123.42 to EUR 1 (2017: 132.95). The statement of profit or loss and other comprehensive income and statement of cash flows are presented in EUR translating the ALL amounts into EUR at the average exchange rate during the year of EUR 1:ALL 127.58 (2017: EUR 1: ALL 134.13).

The supplementary information in EUR is not part of the financial statements.

3. Critical accounting estimates and judgments in applying accounting policies

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

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 6. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

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

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

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

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

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

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 6.

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

On transition to IFRS 9, the Bank identified available for sale (AFS) securities as a liquidity portfolio and classified as held to collect and sell.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

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

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

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

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

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

Deferred income tax asset recognition. The deferred income tax asset has been derecognized by the Bank following a series of negative years in terms of taxable losses and deviations of actual results compared to expectations of the management. Deferred income tax assets are only recorded to the extent that realisation of the related tax benefit is probable. Due to the uncertainties recorded in the last few years, management derecognized deferred income tax asset until a more stable situation with taxable income.

4. Adoption of new or revised standards and interpretations

The following amended standards became effective for the Bank from 1 January 2018:

Adoption of IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

The Bank adopted IFRS 9, Financial Instruments, from 1 January 2018. The Bank elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 2. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 32.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

Amortised cost	IAS 39 carrying amount 31 December 2017	Reclassifications	Re-measurement ECL	IFRS 9 carrying amount 1 January 2018
Cash, cash balances at central banks, and other demand deposits at banks				
	3,270,840		(6,641)	3,264,199
Loans and advance to banks				
	119,326		(451)	118,875
Loans and advance to costumers				
	22,779,031		(715,606)	22,063,425
Other assets				
	1,395,321		(7,829)	1,387,492
Commitments and guarantees				
	(5,299)		(17,937)	(23,236)
Available for sale				
	1,831,138		(4,913)	1,826,226
Total	**29,390,357**		**(753,376)**	**28,636,981**

4. **Adoption of new or revised standards and interpretations**

interpretations (continued)

(a) Cash and cash equivalents and balances with Central Bank

All classes of cash and cash equivalents and balances with Central Bank as disclosed in Note 11 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were not significant.

(b) Due from other banks

All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(c) Investments in debt securities

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis: those previously classified as AFS and now classified as measured at FVOCI.

(d) Loans and advances to customers

All loans and advances to customers are measured at AC under IFRS9. There were no changes to measurement.

The Bank is therefore not able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The impact of this clarification on carrying value of the Bank's financial liabilities carried at amortised cost was not material.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price.

Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal.

Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Bank.

The following amended standards became effective for the Bank from 1 January 2018, but did not have any material impact on the Bank:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

Amendments to IFRS 9 - "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the de recognition will result in an gain or loss in profit or loss. The Bank is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Bank is still assessing the impact of the amendment in its financial statements.

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

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank decided that it will apply the standard using the modified retrospective method, without restatement of financial statements. The Bank has performed an initial preliminary assessment of the impact of the new standard in its financial statements at 1 January 2019. The final impact assessment might differ as the process has not yet completed.

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

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Bank is currently assessing the impact of the improvements in its financial statements.

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

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin).

Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

*Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

6. Financial risk management

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

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

(a) Credit risk

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

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

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

The following table shows the maximum exposure to credit risk:

	31 December 2018	31 December 2017
Cash and balances with Central Bank	4,927,618	5,736,909
Loans and advances to banks and other financial institutions	19,020	119,326
Loans and advances to customers:		
Business Trade	9,684,357	9,610,584
Business Agriculture	732,505	1,719,490
Business Production	6,120,739	5,133,984
Business Transport	592,676	629,136
Business Other	3,386,591	3,589,533
Private Housing	1,701,059	1,908,480
Private Investment	66,875	85,153
Private Other	42,760	102,671
	22,327,562	**22,779,031**

	31 December 2018	31 December 2017
Financial instruments available-for-sale	-	1,831,349
Securities at fair value through other comprehensive income	1,632,790	-
Other financial assets	155,776	172,818
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	1,387,411	2,426,117
Financial guarantees	1,028,128	910,067
Total	**32,287,596**	**33,975,617**

Off balance sheet	31 December 2018	31 December 2017
Credit commitments	1,387,411	2,426,117
Financial guarantees	872,557	745,117
Letters of Credit	155,571	164,950
Provisions recognised as liabilities	(29,292)	(5,299)
Total	**2,386,248**	**3,330,885**

6. **Financial risk management (continued)**

Credit default risk from customers' credit exposures

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

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

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

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

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

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

A significant increase in credit risk has occurred when at least one of the following events was detected:

- customer is in arrears more than 30 days (including PAR 30 during month) but less than 90 days
- significant worsening of the financial situation of the customer resulting in a downgrade of the risk classification to 6 or 7
- standard or watch restructuring event(s)
- multiple restructurings

After the SICR is identified, the lifetime expected credit loss must be determined.

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

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

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

The Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

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

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

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the bank monitors whether that indicator continues to exist or has changed. The bank discusses on monthly basis, through the asset quality indicators committee, all cases identified with SICR and based on the monitoring feedback and existence of indicators decides the proper classification of the exposures.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

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

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.
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LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support.

LGD is calculated on a collective basis based on the latest available recovery statistics for the remaining of the loan portfolio

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

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

Market risk

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

Foreign currency risk

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

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

Foreign Currency Risk Management Policy and Central Bank Regulation on Open Currency Position Risk Management, limit currency risk by setting limits and reporting triggers for open currency positions in relation to the regulatory capital. Changes to the limits and reporting triggers in the policy can only be made by the PC Group ALCO or Group Risk Management Committee. Since the Bank's capital is denominated in EUR, while it operates in a non-EUR country, it has an approved long foreign currency position to account for the capital. Compliance to approved OCP limits are regularly reviewed and monitored by Risk Management Department. Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in ALL):

	2018	2017
USD	107.82	111.10
EUR	123.42	132.95
GBP	137.42	149.95
CHF	109.60	113.94
CNY	15.68	-

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2018 and 2017, translated into ALL'000.

31 December 2018	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,686,542	3,841,309	420,188	3,869	5,951,907
Loans and advances to banks	-	-	19,020	-	19,020
Financial instruments available-for-sale	1,632,594	196	-	-	1,632,790
Loans and advances to customers	9,862,954	11,842,495	622,113	-	22,327,562
Other financial assets	(29,792)	144,880	34,484	6,202	155,775
Total Financial Assets	**13,152,298**	**15,828,879**	**1,095,804**	**10,071**	**30,087,053**
Liabilities					
Due to banks	39,020	3,782,356	-	-	3,821,376
Due to customers	11,421,399	8,137,548	1,107,688	4,578	20,671,213
Other borrowed funds	490,065	2,984,049	-	-	3,474,113
Other financial liabilities	87,732	64,478	1,778	4,740	158,728
Subordinated debt	-	636,738	-	-	636,738
Total Financial Liabilities	**12,038,216**	**15,605,169**	**1,109,466**	**9,318**	**28,762,168**
Net on-balance sheet currency position	**1,114,082**	**223,710**	**(13,662)**	**753**	**1,324,885**
Off-balance sheet commitments and guarantees	**1,204,901**	**1,057,632**	**153,007**	**-**	**2,415,540**
Credit commitments	751,779	618,167	17,465	-	1,387,411
Off balance sheet - letters of credit	-	84,721	70,850	-	155,571
Off balance sheet - bank guarantees	453,122	354,743	64,692	-	872,557
Total credit related commitments	**1,204,901**	**1,057,632**	**153,007**	**-**	**2,415,540**

31 December 2017	ALL	EUR	USD	Other	Total
Assets					
Cash and balances with Central Bank	1,867,024	3,941,796	898,732	3,320	6,710,872
Loans and advances to banks	100,011	-	19,315	-	119,326
Financial instruments available-for-sale	1,697,638	133,711	-	-	1,831,349
Loans and advances to customers	10,415,929	11,727,920	635,182	-	22,779,031
Other financial assets	86,653	85,443	722	-	172,818
Total Financial Assets	**14,167,255**	**15,888,870**	**1,553,951**	**3,320**	**31,613,396**
Liabilities					
Due to banks	538,375	2,341,031	-	-	2,879,406
Due to customers	13,697,700	8,729,438	1,616,500	2,608	24,046,245
Other borrowed funds	530,070	1,330,416	-	-	1,860,486
Other financial liabilities	167,491	143,885	35,065	32	346,474
Subordinated debt	-	685,905	-	-	685,905
Total Financial Liabilities	**14,933,636**	**13,230,675**	**1,651,565**	**2,640**	**29,818,516**
Net on-balance sheet currency position	**(766,381)**	**2,658,195**	**(97,614)**	**680**	**1,794,880**

Off-balance sheet commitments and guarantees	**1,239,870**	**1,784,386**	**311,929**	**-**	**3,336,184**
Credit commitments	932,069	1,398,142	95,906		2,426,117
Off balance sheet - letters of credit	17,254	147,696	-		164,950
Off balance sheet - bank guarantees	307,801	368,989	68,327		745,117
Total credit related commitments	**1,257,124**	**1,914,827**	**164,233**	**-**	**3,336,184**

The Bank's sensitivity analysis takes into consideration the 8-year historical exchange rate movements of the ALL against the foreign currencies, EUR and USD. Following the calculated historical shocks and related financial impact based on the Bank's open currency positions, the sensitivity towards exchange rates risk is measured and reported to key management personnel.

This analyses is based on statistical methods and it represents management's assessment of the reasonably possible change in foreign exchange rates.

The calculation of economic capital necessary to cover currency risk shows the impact that a historical extreme exchange rate shock would have on the bank, given its present currency risk exposure. The calculation of such impact based on 31 December 2018 data and 31 December 2017 (under a standard scenario) is presented below:

			Effect on profit or loss	
Currency	**Historical shocks 2018**	**Historical shocks 2017**	**31December2018**	**31December2017**
EUR	-7.23%	-3.45%	(50,146)	(116,513)
USD	-4.66%	-1.93%	735	344
Total			**(49,411)**	**(116,169)**

Exchange rate shock is determined as follows:

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

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

Interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the Bank's economic value and its interest earnings and eventually capital.

The Bank does not aim to earn profits through speculation in the interest rate market. Rather, it seeks to ensure that its interest rate structure is sufficiently balanced across all maturities by staying within the limits defined in the Interest Rate Risk Management Policy and Central Bank Instruction on Interest Rate Risk Management. The Bank achieves this by matching repricing profiles between assets and liabilities. To monitor interest rate changes, the Bank employs a repricing gap analysis and captures the impact on the economic value (long term perspective) and the impact on earnings (short-term perspective) deriving from a one-time shock (parallel shift of the yield curve) high enough to cover different scenarios of yield curve shifts; this is done for all interest rate risk relevant currencies. By assessing both indicators simultaneously, it is possible to determine the full scope of the interest rate risk exposure.

Considering ALL, EUR and USD denominated asset and liability structures as at 31 December 2018 and 2017, and assuming a parallel shift of interest rates in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below:

ALL Interest Sensitivity Gap At 31 December 2018		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	522,526
Balances with Central Banks		907,069		-	-	-	-	907,069	258,986
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	100,000	1,049,660	485,980	-	-	-	1,635,640	(3,046)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks			-	-	-	-	-	-	
Loans and advances to customers	Fixed	628,289	2,123,143	1,714,742	1,215,263	1,915,780	1,127,884	8,725,100	
	Var.	134,829	925,631	838,836				1,899,296	
Other financial assets		-	-	-	-	-	-	-	777,829
Total assets		**1,770,187**	**4,098,433**	**3,039,558**	**1,215,263**	**1,915,780**	**1,127,884**	**13,167,105**	**1,556,295**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	39,020
Current accounts from customers		1,132,993	-	-	-	-	-	1,132,993	3,188,925
Deposits from customers		5,118	1,962,119	2,959,694	1,658,449	412,488	31,000	7,028,868	
Borrowings and subordinated debt	Fixed	490,000						490,000	
	Var.							-	
Other financial liabilities		-	-	-	-	-	-	-	1,296,736
Total liabilities		1,628,111	1,962,119	2,959,694	1,658,449	412,488	31,000	8,651,861	4,524,681
IR sensitivity gap- open position		142,076	2,136,315	79,864	(443,186)	1,503,292	1,096,884	4,515,245	(2,968,386)

EUR Interest Sensitivity Gap At 31 December 2018		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	457,906
Balances with Central Banks		782,589	-	-	-	-	-	782,589	
Current accounts with banks		2,577,926	-	-	-	-	-	2,577,926	28,983
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	
	Var.		-	-	-	-	-	-	
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	974,141	2,281,290	2,196,574	1,645,955	2,469,475	1,643,171	11,210,606	
	Var.	339,279	602,079	479,638	-	-	-	1,420,996	
Other financial assets		-	-	-	-	-	-	-	(163,208)
Total assets		4,673,936	2,883,369	2,676,211	1,645,955	2,469,475	1,643,171	15,992,117	323,681
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	11,788
Current accounts from customers		1,868,974	-	-	-	-	-	1,868,974	3,911,824
Deposits from customers		401	589,663	1,411,345	119,298	127,074	111,078	2,358,859	
Borrowings and subordinated debt	Fixed	555,390	2,221,560	370,260	1,234,200	2,344,980		6,726,390	
	Var.	617,100						617,100	
Other financial liabilities		-	-	-	-	-	-	-	2,355,991
Total liabilities		3,041,864	2,811,223	1,781,605	1,353,498	2,472,054	111,078	11,571,322	6,279,602
IR sensitivity gap- open position		1,632,071	72,146	894,607	292,457	(2,579)	1,532,093	4,420,794	(5,955,921)

USD Interest Sensitivity Gap At 31 December 2018		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	43,857
Balances with Central Banks		114,962	-	-	-	-	-	114,962	2,618
Current accounts with banks		258,957	-	-	-	-	-	258,957	19,020
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	
Loans and advances to customers	Fixed	37,464	460,927	45,155	41,005	46,978	4,369	635,898	
	Var.	-	14,902	21,894				36,795	
Other financial assets		-	-	-	-	-	-	-	(11,707)
Total assets		411,383	475,829	67,049	41,005	46,978	4,369	1,046,612	53,789
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	
Current accounts from customers		172,041	-	-	-	-	-	172,041	350,413
Deposits from customers		98	249,874	289,602	26,489	16,672	-	582,734	
Borrowings and subordinated debt	Fixed							-	
	Var.							-	
Other financial liabilities		-	-	-	-	-	-	-	6,944
Total liabilities		172,139	249,874	289,602	26,489	16,672	-	754,776	357,357
IR sensitivity gap- open position		239,244	225,955	(222,553)	14,516	30,305	4,369	291,837	(303,568)

ALL Interest Sensitivity Gap At 31 December 2017		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	576,421
Balances with Central Banks		1,251,908		-	-	-	-	1,251,908	38,695
Current accounts with banks		-	-	-	-	-	-	-	-
T-bills and marketable securities	Fixed	435,720	871,300	400,000	-	-	-	1,707,020	(9,382)
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		100,000	-	-	-	-	-	100,000	11
Loans and advances to customers	Fixed	1,019,325	2,018,472	1,710,174	876,139	1,280,916	812,917	7,717,942	(526,139)
	Var.	173,896	1,497,209	1,785,935	-	-	-	3,457,040	(232,928)
Other financial assets		-	-	-	-	-	-	-	86,653
Total assets		**2,980,849**	**4,386,980**	**3,896,108**	**876,139**	**1,280,916**	**812,917**	**14,233,910**	**(66,669)**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	8,001
Current accounts from customers		1,402,693	-	-	-	-	-	1,402,693	3,449,586
Borrowings and subordinated debt	Fixed	703,439	2,757,251	3,582,836	1,204,928	502,973	-	8,751,428	93,993
	Var.	890,000	170,000					1,060,000	443
Other financial liabilities								-	167,491
Total liabilities		**2,996,132**	**2,927,251**	**3,582,836**	**1,204,928**	**502,973**	**-**	**11,214,121**	**3,719,514**
IR sensitivity gap- open position		(15,283)	1,459,729	313,273	(328,790)	777,943	812,917	3,019,789	(3,786,183)

EUR Interest Sensitivity Gap At 31 December 2017		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	357,897
Balances with Central Banks		854,994	-	-	-	-	-	854,994	4,570
Current accounts with banks		-	-	-	-	-	-	-	2,724,335
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	211
	Var.	132,950	-	-	-	-	-	132,950	550
Term deposits with banks		-	-	-	-	-	-	-	-
Loans and advances to customers	Fixed	1,271,251	2,151,414	2,218,931	1,262,690	2,161,398	1,187,586	10,253,270	(464,813)
	Var.	496,607	814,584	683,908	-	-	-	1,995,099	(49,646)
Other financial assets		-	-	-	-	-	-	-	85,443
Total assets		**2,755,802**	**2,965,998**	**2,902,839**	**1,262,690**	**2,161,398**	**1,187,586**	**13,236,314**	**2,658,547**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	11,590
Current accounts from customers		1,882,865	-	-	-	-	-	1,882,865	4,553,458
Deposits from customers		112,079	697,575	1,265,588	172,491	42,888	-	2,290,621	2,494
Borrowings and subordinated debt	Fixed	664,750	1,263,025	398,850	1,329,500			3,656,125	3,732
	Var.	664,750						664,750	21,155
Other financial liabilities		-	-	-	-	-	-	-	143,885
Total liabilities		**3,324,444**	**1,960,600**	**1,664,438**	**1,501,991**	**42,888**	**-**	**8,494,361**	**4,736,313**
IR sensitivity gap- open position		(568,642)	1,005,398	1,238,401	(239,301)	2,118,510	1,187,586	4,741,952	(2,077,766)

USD Interest Sensitivity Gap At 31 December 2017		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	39,645
Balances with Central Banks		141,729	-	-	-	-	-	141,729	4,981
Current accounts with banks		-	-	-	-	-	-	-	712,377
T-bills and marketable securities	Fixed	-	-	-	-	-	-	-	-
	Var.	-	-	-	-	-	-	-	-
Term deposits with banks		-	-	-	-	-	-	-	19,315
Loans and advances to customers	Fixed	33,828	325,018	144,019	29,835	38,137	7,870	578,708	(39,638)
	Var.	-	-	91,092	-	-	-	91,092	(956)
Other financial assets		-	-	-	-	-	-	-	722
Total assets		175,557	325,018	235,110	29,835	38,137	7,870	811,528	736,447
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	
Current accounts from customers		228,067	-	-	-	-	-	228,067	698,015
Deposits from customers		74,010	217,493	374,556	12,769	9,223	-	688,050	2,367
Borrowings and subordinated debt	Fixed							-	
	Var.							-	
Other financial liabilities		-	-	-	-	-	-	-	35,065
Total liabilities		302,078	217,493	374,556	12,769	9,223	-	916,118	735,447
IR sensitivity gap- open position		(126,521)	107,526	(139,446)	17,066	28,915	7,870	(104,589)	999

The analysis and calculations are done to quantify the effect of the interest rates movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering EUR and USD denominated asset and liability structures as at 31 December 2018 and 2017, and assuming a parallel shift of interest rate for +/-200bp and 100bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity.

Estimated profit/(loss) effect	**2018**		**2017**	
	200 bp	100 bp	200 bp	100 bp
Change ALL market rates	36,387	18,193	35,979	19,545
Change EUR market rates	51,962	25,981	96,924	40,602
Change USD market rates	6,964	3,482	14,973	7,054
Total effect (not-netted)	95,313	47,656	147,876	67,201
As % of capital	2.52%	1.26%	3.03%	1.38%

Liquidity risk

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

the Bank diversifies funding sources and manages the assets with liquidity caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls.

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

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

31 December 2018	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,951,907	-	-	-	-	**5,951,907**
Trading securities	99,915	693,555	481,086	-	-	**1,274,556**
Due from other banks		-	-	-	19,020	**19,020**
Loans and advances to customers	2,108,756	2,768,381	3,643,850	5,297,825	8,508,750	**22,327,562**
Investment securities available for sale	-	-	-	358,038	-	**358,038**
Other financial assets	155,776	-	-	-	-	**155,776**
Total	**8,316,354**	**3,461,936**	**4,124,936**	**5,655,863**	**8,527,770**	**30,086,860**
Liabilities						
Due to other banks	612,456	493,680	1,727,880	370,060	617,100	**3,821,376**
Customer accounts – Business	4,577,824	70,612	225,953	48,188	-	**4,922,578**
Customer accounts – Private	6,721,625	2,146,096	4,629,826	2,251,089		**15,784,636**
Other borrowed funds	490,064	-	-		2,948,.049	**3,474,113**
Subordinated debt		-	-		636,738	**636,738**
Gross loan commitments	1,387,411	-	-	-	--	**1,387,411**
Financial guarantees	1,028,128	-	-	-	--	1,028,128
Other financial liabilities	160,085	-	-	-	--	160,085
Total potential future payments for financial obligations	**14,977,594**	**2,710,388**	**6,583,659**	**2,669,537**	**4,237,887**	**31,179,065**
Liquidity gap arising from financial instruments	**(6,661,240)**	**751,548**	**(2,425,783)**	**2,988,326**	**4,289,884**	**(1,092,205)**

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

For liquidity purposes, the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that such large amounts of customer deposits, amounting to more than 50% of total deposits, will leave the Bank within 1 month or even 12 months period, is very unlikely and not historically evidenced. Therefore, the Bank does not consider having such a liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario, where 1 month outflow rates vary from 7%, to 9% and 12%, respectively for standard and stress scenarios, being higher than any historical evidence. In addition, the Bank is maintaining a portfolio of highly marketable financial assets (available for sale financial assets) that can easily be liquidated as protection against any unforeseen interruption to cash flows. From a liquidity management point of view, these assets fall under the first maturity bucket and provide therefore a buffer in case of unexpected outflows. On the other side, the Bank has established relationships with local and international counterparts (core being ProCredit Holding and ProCredit Bank Germany), in relation to any needs for raising funds in the Money Market, based on liquidity projections performed on monthly bases. The deposit strategy remains the main focus of the Bank, aiming to provide new funding from the targeted core clientele, in order to cover the expected outflows as well as to support the growth.

The Liquidity Risk Management is based on and supported by a well-designed risk management framework, consisting of the Liquidity Risk Management Policy and Procedures, Liquidity Contingency Plan, Recovery Plan, specialized responsible structures and steering committees (ALCO and RMCO).

The Management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the short-term liquidity gap is being managed accordingly.

Outflow rates currently used exceed any historical development in relation to customer deposits. In an event that these are not sufficient, the Bank has to adjust / increase these rates accordingly and still is required to comply with the related limits.

7. Management of capital

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

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

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

The required information is filed with Bank of Albania on a quarterly basis. Bank of Albania requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of 1 billion LEK and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel II ratio') at or above minimum of 12%.

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

a) Items of exposures and possible exposures weighted for the credit, or counterparty risk;
b) Capital requirements for market risks; and
c) Capital requirement for operational risk.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2018 and 2017. During these two years, the Bank complied with all of the externally imposed capital requirements. Should be noted that the following amounts are based on Bank of Albania regulations and do not necessarily agree to the amounts shown in these financial statements.

Tier 1 capital	2018	2017
Share capital	3,763,884	3,387,148
Statutory reserve	708,110	708,110
Translation exposure	(56,150)	29,498
Statutory accumulated (losses)/profits	(1,028,279)	(416,115)
Statutory intangible assets	(51,874)	(98,262)
Total qualifying Tier 1 capital	**3,335,691**	**3,610,379**
Tier 2 capital		
Subordinated liability	636,738	685,905
Other deductions	(151,512)	(184,179)
Total qualifying Tier 2 capital	**485,226**	**501,726**
Total regulatory capital	**3,820,917**	**4,112,105**
Total risk-weighted assets	**27,792,887**	**30,630,823**
Risk-weighted assets:		
On-balance sheet	24,247,251	26,271,363
Off-balance sheet	1,054,304	912,516
Risk assets for operational risk	2,491,331	3,054,130
Risk assets for market risk	-	392,814
Total risk-weighted assets	**27,792,886**	**30,630,823**
Tier I capital adequacy ratio	**12.00%**	**11.79%**
Tier II capital adequacy ratio	**13.75%**	**13.42%**

Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel II). The capital management of the Bank is governed by the Bank Policy on Capital Management and the Bank Policy on Risk-Bearing Capacity. Regulatory and Basel II capital ratios, the Tier 1 leverage ratio and the risk-bearing capacity are monitored on a monthly basis by the Bank Risk Management Committee and the Group Risk Management Committee.

7. Management of capital (continued)

Risk bearing capacity

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

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

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

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

The bank has therefore taken strategic decisions on the following:

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

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

8. Fair values of financial instruments

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

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

(a) Valuation models

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

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

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

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

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

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

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

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

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

	Fair Value	Level 1	Level 2	Level 3
Debt securities at FVOCI				
31 December 2018				
Treasury bills	1,274,556	-	1,274,556	-
Bonds	358,038	-	358,038	-
Shares	196	-	196	-
Total	**1,632,790**	-	**1,632,790**	-
Available-for-sale financial assets (debt)				
31 December 2017				
Treasury bills	1,424,507	-	1,424,507	-
Bonds	406,631	-	406,631	-
Shares	211	-	211	-
Total	**1,831,349**	-	**1,831,349**	-

8. Fair values of financial instruments (continued)

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

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

	31 December 2018				31 December 2017			
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial Assets								
Loans and receivables								
Cash and balances with Central Banks	5,956,379	5,956,379	-	-	6,710,872	6,710,872	-	-
Loans and advances to banks	19,020	19,020	-	-	119,326	119,326	-	-
Loans and advances to customers	22,327,562	-	-	21,752,008	22,779,031	-	-	22,735,553
Agricultural loans	732,505	-	-	713,623	1,719,490	-	-	1,713,857
Business loans	19,784,364	-	-	19,274,368	18,963,237	-	-	18,927,587
Private loans	109,634	-	-	106,808	187,824	-	-	186,618
Housing loans	1,701,059	-	-	1,657,210	1,908,479	-	-	1,907,490
Other financial assets	155,776	-	-	155,776	172,818	-	-	172,818
Financial Liabilities								
Due to banks	3,821,376	3,821,376	-	-	2,879,406	2,879,406	-	-
Customers' deposits	20,671,214	10,625,170	-	10,233,222	24,046,245	12,209,273	-	11,943,692
Current accounts	7,451,162	7,451,162	-	-	8,693,871	8,693,871	-	-
Saving accounts and others	3,174,008	3,174,008	-	-	3,515,403	3,515,403	-	-
Term deposits	9,970,461	-	-	10,157,639	11,730,099	-	-	11,836,819
Accrued interest	75,583	-		75,583	106,873	-	-	106,873
Borrowings and subordinated debt		-						
Borrowings	3,474,113	3,474,113	-		1,860,486	1,860,486	-	-
Subordinated debts	636,738	-	-	636,738	685,905	-	-	685,905
Other financial liabilities	152,710	-	-	152,710	346,474	-	-	346,474

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

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

9. Presentation of Financial Instruments by Measurement Category

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

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

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

As at 31 December 2018	FVOCI	AC	Total
Cash and current accounts with banks	-	5,951,907	5,951,907
Loans and advances to banks	-	19,020	19,020
Other financial assets	-	361,274	361,274
Loans to Business	-	**20,516,869**	**20,516,869**
Loans to customers	-	14,963,961	14,963,961
Overdrafts	-	5,552,908	5,552,908
Credit cards	-	-	-
Loans to Private	-	**1,810,693**	**1,810,693**
Loans to customers	-	1,781,163	1,781,163
Overdrafts	-	23,241	23,241
Credit Cards	-	6,289	6,289
Total loans and advances to customers	-	**22,327,562**	**22,327,562**
Investment securities available for sale	**1,632,594**	-	1,632,594
Albanian Government Treasury Bills	1,274,556	-	1,274,556
Albanian Government Bonds	358,038	-	358,038
Total Financial Assets	**1,632,594**	**28,659,763**	**30,292,357**

As at 31 December 2017	Available for sale Financial assets	AC	Total
Cash and current accounts with banks	-	6,710,872	6,710,872
Loans and advances to banks	-	119,326	119,326
Other financial assets	-	436,706	436,706
Loans to Business	-	**20,682,727**	**20,682,727**
Loans to customers	-	13,885,234	13,885,234
Overdrafts	-	6,797,493	6,797,493
Credit cards	-	-	-
Loans to Private	-	**2,096,304**	**2,096,304**
Loans to customers	-	2,017,171	2,017,171
Overdrafts	-	23,929	23,929
Credit Cards	-	55,204	55,204
Total loans and advances to customers	-	**22,779,031**	**22,779,031**
Investment securities available for sale	**1,831,138**	-	1,831,138
Albanian Government Treasury Bills	1,424,507	-	1,424,507
Albanian Government Bonds	406,631	-	406,631
Total Financial Assets	**1,831,138**	**22,779,031**	**24,610,169**

10. Net interest income

Interest income was earned on the following assets:

	2018	2017
Interest income		
Loans and advances to customers	1,387,430	1,253,653
Financial instruments available-for-sale	38,385	43,392
Loans and advances to financial institutions	16,177	17,524
Other interest income	2,357	25,851
Total interest income	**1,444,349**	**1,340,420**
Interest expense		
Due to customers	(135,906)	(139,036)
Interest expenses on subordinated debts	(40,696)	(42,981)
Interest expenses on financial institutions	(4,126)	(1,344)
Other	(69,983)	(17,403)
Total interest expense	**(250,711)**	**(200,764)**
Net interest income	**1,193,638**	**1,139,656**

A total of ALL 26,543 thousand relating to income from unwinding effect for impaired loans is included within interest income from loans and advances to customers for the year ended 31 December 2018 (2017: ALL 16,376 thousand).

11. Net fee and commission income

Fees and commissions income were comprised as follows:

	2018	2017
Money transfer and cheques	72,403	66,086
Account maintenance fees	172,807	99,793
Card fees	61,294	78,780
Letters of credit and guaranties	1,142	2,440
Banking services fees	5,637	14,522
Other	7,641	7,288
Total fee and commission income	**320,924**	**268,909**
Transfer commission	5,240	(5,624)
Cards fees expense	79,867	(97,134)
Other	27,503	(20,176)
Total fee and commission expense	**(112,610)**	**(122,934)**
Net fee and commission income	**208,314**	**145,975**

12. Other operating income

	2018	2017
Repayment of loans previously written off	37,339	25,972
Gain on sale of fixed assets	81,725	37,848
Sale of properties acquired through legal process	16,805	11,231
Other	26,624	17,837
Total	**162,493**	**92,888**

All repayments of loans previously written off relate to loans and advances to customers. Others consists of income from leasing operations, income from reimbursement of expenses etc.

13. Other operating expenses

	2018	2017
Other expenses	354,249	253,495
IT, Maintenance and repairs	325,188	245,750
Consultancy, legal fees and other services	144,118	136,134
Depreciation of investment property and property and equipment	110,538	152,098
Other provision	68,173	17,960
Deposit insurance ASD	63,863	83,839
Transportation and business trip expenses	52,974	77,756
Security services	49,061	25,430
Telephone and electricity	49,014	73,837
Rent expense	48,317	81,922
Impairment of investment property	43,151	6,173
Amortization of intangible assets	27,352	31,690
Training	20,992	29,672
Advertising	20,479	11,013
Office supplies	8,712	11,209
Write down of repossessed assets	65,360	92,993
Insurance	6,771	11,490
Total	**1,458,312**	**1,342,461**

14. Personnel expenses

Personnel expenses were comprised as follows:

	2018	2017
Salaries	324,346	374,847
Social insurance	24,058	30,863
Public defined contribution plan	10,311	13,227
Other	7,505	5,897
Total	**366,220**	**424,834**

At 31 December 2018 the Bank had165 employees (31 December 2017: 202 employees).

15. Income tax

(a) Amounts recognised in profit or loss

Income tax for the years ended 31 December 2018 and 2017 is presented as it follows:

	2018	2017
Current tax	-	-
Deferred tax benefit/(expense)	(60,134)	45,630
Income tax benefit/(expense)	**(60,134)**	**45,630**

Current income tax is calculated based on the income tax regulations applicable in Albania, using tax rates enacted at the reporting date. The tax rate on corporate income is 15% (2017: 15%).

(b) Amounts recognised in OCI

	2018			2017		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Securities FVOCI	1,814	(272)	2,086	-	-	-
Available-for-sale investments	-	-	-	(13,283)	1,992	(11,291)
Total	**1,814**	**272**	**1,542**	**(13,283)**	**1,992**	**(11,291)**

(c) Reconciliation of the effective tax rate

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

	2018	2017
Loss before taxes	(723,394)	(581,834)
Theoretical (credit) tax calculated at 15% (2017:15%)	(108,509)	(87,275)
Non-deductible expenses	86,917	7,842
Derecognition of deferred tax assets	60,133	-
Unrecognised tax loss carry forwards	21,593	33,803
Income tax expense	**60,134**	**(45,630)**

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 15% (2017: 15%)

		Movements			Movements		
	2016	In profit or loss	In OCI	2017	In profit or loss	In OCI	2018
Deferred tax assets/(liabilities)							
Available-for-sale investments	2,855	-	1,992	4,847	-	(4,847)	
Debt securities FVOCI					-	4,575	4,575
Accelerated accounting depreciation	3,840	(1,028)	-	2,812	(2,812)	-	-
Write down of repossessed property	11,276	12,174	-	23,450	(23,450)	-	-
Other provisions	(613)	681	-	68	(68)	-	-
Loss for the year	-	33,803	-	33,803	(33,803)	-	-
Net deferred tax assets/(liabilities)	**17,358**	**45,630**	**1,992**	**64,980**	**(60,133)**	**(272)**	**4,575**

	31 December 2018	31 December 2017
Tax loss carry-forwards expiring by the end of: - 31 December 2020	-	(225,357)
Tax loss carry-forwards expiring by the end of: - 31 December 2021	(143,947)	-

16. Cash and balances with Central Bank

Cash and balances with Central Bank consisted of the following:

	2018	2017
Cash on hand	1,024,289	973,963
Current accounts with non-residents	2,865,008	3,440,032
Current account with Central Bank of Albania	265,907	48,332
	4,155,204	4,462,327
Compulsory reserve with Central Bank of Albania	1,800,318	2,248,545
Allowance for impairment losses	(3,615)	
Total	**5,951,907**	**6,710,872**

As at 31 December 2018 the bank has recognized EUR 16 thousand (2017: nil) as credit loss allowance for cash and balances with Central Bank according to bank's internal approved IFRS 9 impairment methodology which includes a 0.58% PD and 30% LGD.

Movement in impairment for the year ended December 31, 2018 and 2017, charged to Profit and Loss is as following:

	2018	2017
At 1 January	-	-
First time adoption of IFRS 9	6,641	-
Charge/(release) to profit and loss	(3,026)	-
At 31 December	**3,615**	-

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

Cash and cash equivalents at 31 December 2018 and 2017 are presented below:

	2018	2017
Cash and balances with Central bank	4,155,204	4,462,327
Loans and advances to financial institutions with maturities of three months or less (note 17)	-	100,011
Receivables from ATM transactions (note 20)	22,981	38,611
Monetary values in transit	1,021	-
Total	**4,179,206**	**4,600,949**

Cash and balances with central banks

The credit quality of cash and balances with central banks is provided below. Central Bank of Albania is not rated. However, the Albanian Government is rated as B+ by Fitch rating.

31 December 2018	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Low credit risk exposures (Stage 1)				
Central Bank of Albania	B+			
- Current accounts		265,907	-	265,907
- Compulsory reserve		1,800,318	-	1,800,318
- Government securities (note 19)		-	494,502	494,502
Total cash and balances with central banks		**2,066,225**	**494,502**	**2,560,727**

16. Cash and balances with Central Bank (continued)

31 December 2017	Rating	Cash balances with central banks, including mandatory reserves	Albanian Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of Albania	B+			
- Current accounts		48,332	-	48,332
- Compulsory reserve		2,248,545	-	2,248,545
- Government securities (Note 19)		-	1,304,483	1,304,483
Total cash and balances with central bank		**2,296,877**	**1,304,483**	**3,601,360**

17. Loans and advances to financial institutions

Loans and advances to financial institutions are detailed as follows:

	2018	2017
Deposits with non-resident banks with original maturities of three months or less	-	100,011
Other accounts	19,020	19,315
Total	**19,020**	**119,326**

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

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

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

18. Loans and advances to customers

Loans and advances consisted of the following:

	2018	2017
Loans to customers	18,082,112	16,944,632
Overdrafts	5,787,312	7,055,430
Credit Cards	7,388	29,669
Accrued interest	164,796	105,300
	24,041,608	**24,135,031**
Credit loss allowance	(1,714,046)	(1,356,000)
	22,327,562	**22,779,031**

18. Loans and advances to customers (continued)

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

	2018	2017
At 1 January	1,356,000	1,493,182
First time adoption of IFRS 9	715,606	-
Credit loss allowance for the year	379,777	162,203
Loans written off	(521,683)	(263,348)
Translation impact	(215,654)	(36,037)
Total	**1,714,046**	**1,356,000**

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

	2018	2017
Loans in Lek	4% to 7%	2.5% to 15%
Loans in Euro	4.5% to 7%	2% to 12%
Loans in Usd	4.5% to 7%	2.7% to 10.5%

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

	31 December 2018	
	Loans and advances	ECL
Stage 1 and 2		
Arrears 0-7 days	20,997,988	(551,318)
Arrears 8-30 days	1,130,649	(74,956)
Arrears 31-90 days	154,113	(28,897)
Stage 3	1,758,858	(1,058,875)
	24,041,609	**(1,714,046)**

	1 January 2018	
	Loans and advances	ECL
Stage 1 and 2		
Arrears 0-7 days	21,151,227	(500,751)
Arrears 8-30 days	1,695,360	(202,502)
Arrears 31-90 days	89,753	(19,400)
Stage 3	1,198,691	(633,347)
	24,135,031	**(1,356,000)**

	31 December 2017	
	Loans and advances	ECL
Specific Impairment	1,615,828	(525,401)
Arrears 0-7 days	20,261,951	(304,769)
Arrears 8-30 days	1,658,314	(39,037)
Arrears 31-90 days	62,427	(17,592)
Arrears 91-180 days	27,451	(18,717)
Above 180 days	509,060	(450,484)
	24,135,031	**(1,356,000)**

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

31 December 2018	*Business*	*Private*	Total
Total gross amount	22,067,578	1,974,030	24,041,608
Credit loss allowance (individual and collective)	(1,550,709)	(163,337)	(1,714,046)
Net carrying amount	**20,516,869**	**1,810,693**	**22,327,562**

18. Loans and advances to customers (continued)

31 December 2017	*Business*	*Private*	Total
Total gross amount	21,850,542	2,284,489	24,135,031
Allowance for impairment (individual and collective)	(1,167,815)	(188,185)	(1,356,000)
Net carrying amount	**20,682,727**	**2,096,304**	**22,779,031**

Loans to customers by credit risk stages are presented below:

31 December 2018	Business	Private
Stage 1	19,377,832	1,590,713
Stage 2 (SICR)	1,085,880	228,324
Stage 3 (Default)	1,603,866	154,993
Gross	**22,067,578**	**1,974,030**
Less: credit loss allowance	(1,550,709)	(163,337)
Net carrying amount	**20,516,869**	**1,810,693**

31 December 2017	Business	Private
Neither past due nor impaired	18,437,571	1,647,909
Past due but not impaired	1,880,688	553,035
Individually impaired	1,532,283	83,545
Gross	**21,850,542**	**2,284,489**
Less: credit loss allowance	(1,167,815)	(188,185)
Net carrying amount	**20,682,727**	**2,096,304**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

	31 December 2018			31 December 2017		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Business						
Loans	16,298,808	(1,334,847)	14,963,961	14,866,180	(980,946)	13,885,234
Overdrafts	5,768,770	(215,863)	5,552,907	6,984,363	(186,870)	6,797,493
Private						
Loans	1,934,735	(153,572)	1,781,163	2,167,006	(149,836)	2,017,170
Overdrafts	31,725	(8,483)	23,241	30,058	(6,127)	23,931
Credit Cards	7,570	(1,281)	6,289	87,424	(32,221)	55,203
Total loans and advances to customers at AC	**24,041,608**	**(1,714,046)**	**22,327,562**	**24,135,031**	**(1,356,000)**	**22,779,031**

18. Loans and advances to customers (continued)

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

Credit loss allowance	Balance at January 1, 2018	Transfer	(Increases) / Decreases	Change in model risk parameters	Write-offs	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses	(365,841)	(19,433)	(106,160)	51,639	-	7,735	(432,060)
Stage 2 Lifetime ECL not credit impaired	(309,012)	6,695	37,843	3,829	33,355	4,178	(223,112)
Stage 3 Lifetime ECL - credit impaired	(1,711,688)	12,738	153,449	-	458,412	28,214	(1,058,874)
Total	**(2,386,541)**	**-**	**85,132**	**55,468**	**491,767**	**40,127**	**(1,714,046)**

Gross carrying amount	Balance at January 1, 2018	Transfer	Increases/ Decreases	Write-offs	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses	20,305,238	(528,329)	1,568,645	-	(377,008)	20,968,546
Stage 2 Lifetime ECL not credit impaired	1,322,213	299,774	(249,263)	(33,355)	(25,164)	1,314,205
Stage 3 Lifetime ECL - credit impaired	2,822,515	228,555	(766,234)	(458,412)	(67,566)	1,758,858
Total	**24,449,966**	**-**	**553,148**	**491,767**	**(469,739)**	**24,041,608**

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2018:

	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	POCI	Total
Business				-	
Performing	11,724,687	-	-	-	**11,724,687**
Performing LP with EWI	7,653,145	-	-	-	**7,653,145**
Underperforming	-	1,085,880	-	-	**1,085,880**
Default	-	-	1,564,695	**39,171**	**1,603,866**
Gross carrying amount	**19,377,832**	**1,085,880**	**1,564,695**	**39,171**	**22,067,578**
Expected Credit Loss	**(391,356)**	**(178,818)**	**(975,964)**	**(4,571)**	**(1,550,709)**
Carrying amount	**18,986,476**	**907,062**	**588,731**	**34,600**	**20,516,869**
Private					
Performing	1,318,902	-	-	-	**1,318,902**
Performing LP with EWI	271,812	-	-	-	**271,812**
Underperforming	-	228,324	-	-	**228,324**
Default	-	-	154,992	-	**154,992**
Gross carrying amount	**1,590,714**	**228,324**	**154,992**	-	**1,974,030**
Expected Credit Loss	(40,703)	(44,295)	(78,340)	-	(163,337)
Carrying amount	**1,550,011**	**184,030**	**76,652**	-	**1,810,693**

18. Loans and advances to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

	2018		
	Private	Business	Total
Stage 1 and Stage 2			
0 days past due	1,496,604	19,031,587	**20,528,190**
1 to 30 days past due	199,563	1,387,668	**1,587,231**
31 to 90 days past due	17,871	148,636	**166,507**
Total Stage 1 and Stage 2 impaired loans	**1,714,038**	**20,567,891**	**22,281,929**
Stage 3 collectively impaired loans			
0 days past due	-	96,091	**96,091**
1 to 30 days past due	-	203,337	**203,337**
31 to 90 days past due	-	30,927	**30,927**
over 90 days past due	-	384,374	**384,374**
Total Stage 3 Collectively impaired loans	-	**714,729**	**714,729**
Stage 3 Individually impaired loans			
0 days past due	-	187,327	**187,327**
1 to 30 days past due	-	120,458	**120,458**
31 to 90 days past due	-	24,097	**24,097**
over 90 days past	-	712,238	**712,238**
Total Stage 3 Individually impaired loans	-	**1,044,120**	**1,044,120**
Total loans	**1,714,038**	**21,282,620**	**24,041,608**
Expected credit losses	(163,337)	(1,550,709)	(1,714,046)
Net loans	**1,550,701**	**19,731,911**	**22,327,562**

According to the Bank's policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. Credit exposures with a higher risk profile are always covered with collateral, typically through mortgages. For an insignificant number of financial assets, the Bank holds cash collateral.

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

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

	2018		2017	
	Outstanding balance	Allowance for impairment	Outstanding balance	Allowance for impairment
Business Trade	14,097	(2,126)	124,411	(9,845)
Business Agriculture	7,579	(2,769)	35,943	(1,782)
Business Production	2,208	(148)	34,488	(1,940)
Business Other	61,417	(23,514)	112,976	(24,303)
Private Housing	5,037	(930)	16,306	(870)
Private Investment	487	(48)	3,347	(590)
Total	**90,825**	**(29,535)**	**327,471**	**(39,330)**

18. Loans and advances to customers (continued)

31 December 2018 *Loans with renegotiated terms*	*Business*	*Private*	Total
Carrying amount	85,300	5,525	90,825
Credit loss allowance	(28,558)	(978)	(29,536)
Net carrying amount	**56,742**	**4,547**	**61,289**

Loans with renegotiated terms	2018
Stage 1	-
Stage 2	31,626
Stage 3	59,199
Total gross amount	**90,825**
Individual impairment	40,411
Collective impairment	50,414
Net loans	**90,825**

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

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

Credit portfolio risk from customer lending

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

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

	2018	%	2017	%
Business Trade	10,197,178	42%	8,868,929	44%
Business Agriculture	850,833	4%	1,439,943	7%
Business Production	6,397,090	27%	4,814,296	24%
Business Transport	605,915	2%	623,847	3%
Business Other	4,016,561	17%	2,690,556	14%
Private Housing	1,845,009	8%	1,481,386	8%
Private Investment	76,171	0%	77,106	0%
Private Other	52,851	0%	89,418	0%
Total	24,041,608	100%	**20,085,481**	**100%**

18. Loans and advances to customers (continued)

	2018		
	Stage 1	Stage 2	Stage 3
Business Trade	9,294,832	488,406	413,939
Business Agriculture	591,673	110,064	149,096
Business Production	5,976,474	190,758	229,858
Business Transport	596,218	8,175	1,522
Business Other	2,918,634	288,477	809,450
Private Housing	1,486,829	223,837	134,343
Private Investment	62,384	3,525	10,263
Private Other	41,502	962	10,387
Total	**20,968,546**	**1,314,204**	**1,758,858**

Loans and advances to customers -Stage 3

The breakdown of stage 3 loans to customers both collective and individually impaired loans and advances in 2017 along with the fair value of related collateral held by the Bank as security is presented as it follows.

	2018		2017	
	Gross outstanding amount	Fair value of collateral	Gross outstanding amount	Fair value of collateral
Business Trade	413,939	152,583	301,992	198,661
Business Agriculture	149,096	73,718	136,279	77,115
Business Production	214,590	95,350	313,781	174,389
Business Transport	1,522	122	4,756	-
Business Other	825,090	239,137	775,475	303,189
Private Housing	134,343	91,580	82,481	73,756
Private Other	20,268	3,337	1,064	-
Total	**1,758,849**	**655,828**	**1,615,828**	**827,110**

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

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

The Bank follows a guideline that limits concentration risk in their loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the PCH Group Risk Management Committee. No single large credit exposure may exceed 25% of regulatory capital.

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

At 31 December 2018, the ten largest borrowers represent 15.6% (2017: 15%) of the total loans

Individually significant credit exposures are closely monitored by the Credit Risk Committee of the Bank. For such credit exposures, the Bank performs an impairment test if the following default events are identified, i.e:

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

18. Loans and advances to customers (continued)

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

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

The following tables show all applicable provisioning rates and/or methods to determine provisioning that apply for the whole loan portfolio at December 2018.

While calculating PDs the portfolio is segmented in different buckets as Very Small Exposures (‹EUR 50K), SME Exposures › 50K. The same distribution of exposure size is done for business portfolio and private clients portfolio. For Stage 2, the type of restructuring is measured in addition to the size of the exposure. The table below shows PDs used for Stage 1 and 2 for different segments of portfolio.

Avg PiT PD		Business		Private	
Stage	**Restructuring type**	**‹ EUR 50'000**	**› EUR 50'000**	**‹ EUR 50'000**	**› EUR 50'000**
Stage 1	N/A	3.67%	5.55%	5.12%	6.43%
Stage2	Standard Restructured	13.13%	13.13%	13.13%	13.13%
	Watch Restructured	25.83%	25.83%	25.83%	25.83%
	Not Restructured	25.83%	25.83%	25.83%	25.83%

The LGD of the exposures is measured based on the size of the exposure where Very Small is below 50K, Small 50K to 250K and Medium above 250K and for the very small exposures is based on days in arrears (exposures below 30K) as these exposures are mainly without collateral. The table below shows the average LGD for different segments of the portfolio applied on all stages.

Exposure size class	B30K Exposure	Days in arrears	Average LGD
Medium	**not relevant**	not relevant	61.75%
Small	**not relevant**	not relevant	52.24%
Very small	**EUR 30K to 50K**	greater ›180 days	43.01%
		lower than 180 days	43.01%
	Less than EUR 30K	greater ›180 days	90.00%
		lower than 180 days	43.01%

As stated in the IFRS 9 framework, the necessity to estimate lifetime expected losses arises in IFRS 9 Stages II and III; in Stage I, one-year expected losses are used. Details of the different approaches are given below.

12-month expected credit losses are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Lifetime expected credit losses are the present value of losses that arise if a borrower defaults on his obligation throughout the life of the financial instrument. Because expected credit losses consider the amount as well as the timing of payments, a credit loss (i.e., a cash shortfall) arises even if the entity expects to be paid in full but later than when contractually due.

12-month expected credit losses can be viewed as a part of the lifetime expected credit losses that are associated with a potential default during the next twelve months. However, in contrast to lifetime expected credit losses, they do not correspond to expected cash shortfalls over the next twelve months. In particular, no timing information is taken into account.

Impairment and provisioning

The Bank reviews its loan portfolios to assess staging at least on a quarterly basis. The Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

18. Loans and advances to customers (continued)

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The smaller the outstanding amount, the higher the number of days in arrears and the greater the uncertainties surrounding recoveries (such as an unpredictable legal environment) are, the smaller will be the chances of recovery by the Bank. Repayments of loans previously written off amounted to ALL 37,339 thousand in 2018 (2017: ALL 25,972 thousand).

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for lending commitments is the full amount of the commitment (see Note 29).

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups and to affiliates.

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

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

Collateral held and other credit enhancements and their financial effect

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

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

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are secured by cash collateral or other types of collateral determined with a decision of credit committees.

In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2018.

	2018			2017		
	OECD countries	Albania	Total	OECD countries	Albania	Total
Balances with Central Banks	-	2,066,224	2,066,224	-	2,296,877	2,296,877
Loans and advances to banks	19,020		19,020	19,315	100,011	119,326
Loans and advances to customers	-	22,327,562	22,327,562	-	22,779,031	22,779,031
Available-for-sale financial assets		1,632,594	1,632,594	133,711	1,697,638	1,831,349
Other financial assets		155,776	172,818	18,857	153,961	172,818
Total	**19,020**	**26,182,156**	**26,218,218**	**171,883**	**27,027,518**	**27,199,401**

18. Loans and advances to customers (continued)

Loans and advances to customers based on specific industry sectors at 31 December 2018 and 2017 are presented below:

	31 December			
Industry sector	**2018**	**%**	**2017**	**%**
Trade	10,916,131	49	9,925,151	44
Industry and other production	6,935,393	31	5,516,495	24
Construction	583,869	3	750,964	3
Transport	604,397	3	671,823	3
Services	1,183,587	5	346,988	2
Other	2,104,185	9	5,567,610	24
Total	**22,327,562**	**100**	**22,779,031**	**100**

19. Investments in debt securities FVOCI and financial assets available for sale (for comparatives)
Financial instruments available-for-sale are comprised of treasury bills and bonds and are presented as follows:

	2018	**2017**
	FVOCI	**AFS**
Treasury bills	1,274,556	1,424,507
Bonds	358,038	406,631
	1,632,594	**1,831,138**
Shares	196	211
Total	**1,632,790**	**1,831,349**

As at 31 December 2018, the Bank holds two bonds from Albanian government in ALL, and rated B+ based on Fitch rating (with maturities in February and March 2020).

The movement in investments securities is summarised as follows:

	2018	**2017**
At 1 January	1,831,138	2,870,092
Additions	1,632,594	1,424,506
Matured	(1,831,138)	(2,450,537)
Change in accrued interest	(4,902)	360
Gains from changes in fair value	4,902	(13,283)
Total	**1,632,594**	**1,831,138**

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

	2018	**2016**
At 1 January	(27,465)	(16,173)
Additions	4,498	340
Disposals (reclassified to profit or loss)	(2,684)	(13,623)
Net (disposals)/additions	1,814	(13,283)
Total at 31 December, before income tax	**(25,651)**	**(29,456)**
Deferred tax on the revaluation reserve of AFS instruments	(272)	1,992
Revaluation reserve loss allowance of FVOCI	2,856	-
Revaluation reserve for available-for-sale investments	**(23,067)**	**(27,464)**

Treasury bills

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

		2018			*2016*	
Issuer	*Maturity*	*Yield*	*Carrying value*	*Maturity*	*Yield*	*Carrying value*
Albanian overnment	12 months	0.72% - 2.8%	1,274,556	12 months	1.80% - 3.18%	1,424,507
			1,274,556			**1,424,507**

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

19. Investments in debt securities FVOCI and financial assets available for sale (for comparatives) (continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018. Such assets by default are classified in Stage 1 for which an ECL allowance is recognised based on Basel min PD of 0.58% and LGD of 30%.

Movement in impairment for the years ended December 31, 2018 and 2017, charged to profit and loss is as following:

	31-Dec-18	31-Dec-17
Opening balances	-	-
Transfer to IFRS 9 effect	4,913	
Charge/(release) to profit and loss	(2,057)	
Closing balance	**2,856**	

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

Ratings at 31 December	2018	2017
	Securities at fair value through other ensive income	Available for sale
AAA		133,711
B+	1,632,790	1,697,638
Total	**1,632,790**	**1,831,349**

20. Other assets

	2018	2017
Receivables from ATM transactions	22,981	38,611
Other debtors	132,795	134,207
Other financial assets	155,776	172,818
Repossessed properties	615,435	932,517
Prepaid expenses	84,980	182,168
Loss allowance for account receivables	(6,595)	-
Total	**849,596**	**1,287,503**

Movement in impairment for the years ended December 31, 2018 and 2017, charged to profit and loss is as following:

	31-Dec-18	31-Dec-17
Opening balances	-	-
Transfer to IFRS 9 effect	7,829	-
Charge/release to profit and loss	(1,234)	-
Closing balance	6,595	-

Other debtors mainly relate to prepayments made to Bailiff Offices that collect funds from loan customers, either for repossession processes which have not yet been concluded, or for processes which have been finalised but the amount is expected to be collected from the debtors and also included sales of properties on condition.

The repossessed properties are collaterals obtained through legal processes and include land, buildings and business premises, which are not used by the Bank for its core operations. Repossessed properties obtained due to legal process are to be sold as soon as practicable (please see note 4.a.(iii)). The Bank fully writes down repossessed property within 7 years from initial recognition, based on the management's historical observations and experience on recovery from such assets.

20. Other assets (continued)

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

	2018	2017
Balance at the beginning of the period	932,517	1,356,262
Additions during period	61,717	84,229
Disposals during the period	(292,062)	(420,738)
Reversal of impairment	-	5,757
Write downs	(86,737)	(92,993)
Balance at the end of the period	**615,435**	**932,517**

21. Investment property

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

	Investment property
Cost	
At 1 January 2017	109,507
Additions	38,251
Disposals	(38,644)
At 31 December 2017	**109,113**
Disposals	(13,404)
At 31 December 2018	**95,710**
Accumulated depreciation	
At 1 January 2017	(8,527)
Charge for the year	(2,700)
Disposals	344
Impairment	(6,173)
At 31 December 2017	**(17,056)**
Charge for the year	(2,539)
Disposals	1,063
Impairment	(42,195)
At 31 December 2018	**(60,728)**
Net book value	
At 31 December 2017	**92,057**
At 31 December 2018	**34,982**

	Land and buildings	Computers and electronic equipment	Vehicles	Furniture and equipment	Leasehold improvements	Assets under construction	Total
Cost							
At 1 January 2017	1,049,118	804,657	60,296	408,213	135,460	12,754	2,470,498
Additions	-	3,763	-	935	2,421	26,003	33,122
Disposals	(13,616)	(53,167)	(15,309)	(35,811)	(68,087)	(2,342)	(188,332)
Transfer	-	18,778	6,298	2,743	-	(29,172)	(1,353)
At 31 December 2017	1,035,502	774,031	51,285	376,080	69,794	7,243	2,313,935
Additions	11,543	6,417	29,178	3,863	1,599	23,357	75,956
Disposals	(63,221)	(380,308)	(19,965)	(120,629)	(39,017)	(356)	(623,496)
Transfer	4,334	8,850		148	-	(13,333)	
At 31 December 2018	**988,158**	**408,990**	**60,498**	**259,462**	**32,376**	**16,910**	**1,766,394**

22. Property and equipment

Accumulated depreciation							
At 1 January 2017	(159,220)	(622,549)	(43,063)	(305,346)	(80,028)	-	(1,210,206)
Charge for the year	(21,669)	(56,381)	(7,471)	(29,296)	(34,582)	-	(149,399)
Disposals	1,446	50,405	15,309	32,361	68,087	-	167,608
At 31 December 2017	(179,443)	(628,525)	(35,225)	(302,281)	(46,522)	-	(1,191,996)
Charge for the year	(22,025)	(43,235)	(6,769)	(17,948)	(18,021)	-	(107,998)
Disposals	12,236	363,974	19,965	104,904	39,017	-	540,096
At 31 December 2018	**(189,232)**	**(307,786)**	**(22,029)**	**(215,325)**	**(25,526)**	**-**	**(759,898)**
Net carrying amount							
At 31 December 2017	856,059	145,506	16,060	73,799	23,272	7,243	1,121,939
At 31 December 2018	**798,926**	**101,204**	**38,469**	**44,137**	**6,850**	**16,910**	**1,006,496**

23. Intangible assets

	Software acquired
Cost	
At 1 January 2017	408,508
Additions	-
Disposal	(66,966)
Transfer	1,353
At 31 December 2017	**342,895**
Additions	-
Disposal	(45,096)
Transfer	
At 31 December 2018	**297,799**
Accumulated amortization	
At 1 January 2017	(275,143)
Charge for the year	(31,690)
Disposal	65,539
At 31 December 2017	(241,294)
Charge for the year	(27,352)
Disposal	24,915
At 31 December 2018	**(243,731)**
Net book value	
At 31 December 2017	101,601
At 31 December 2018	**54,068**

24. Due to banks

	2018	2017
Borrowings from resident banks	555,397	530,374
Borrowings from non-resident banks	3,215,172	2,329,441
Current accounts from resident banks	50,807	19,591
Total	**3,821,376**	**2,879,406**

Borrowings from resident banks have maturities as at December 31, 2018 up to 91 days and interest rates of 0.00% and 0.50% for balances denominated in ALL.

Borrowings from non-resident banks have maturities as at December 31, 2018 up to 5 years (2017: up to 194 days) and interest rates of 0.70%, 0.75%, 0.78% and 0.88% for balances denominated in EURL (2017: 0.6% and 0.68% p.a for EUR).

25. Due to customers

	2018	2017
Current accounts		
Foreign currency	4,097,609	4,871,324
Local currency	2,991,853	3,310,881
Savings accounts		
Foreign currency	2,039,821	2,110,240
Local currency	1,130,644	1,396,418
Term deposits		
Foreign currency	2,911,217	2,935,657
Local currency	7,064,313	8,704,387
Other customer account		
Foreign currency	201,166	425,361
Local currency	234,590	186,402
Accrued interest	-	105,575
Total	**20,671,213**	**24,046,245**

Savings accounts in Lek (FlexSave) bear interest at 0.8% p.a (2017: 0.8%), savings accounts in Euro (FlexSave) bear interest at 0.2% p.a (2017: 0.2%) and savings accounts in USD (FlexSave) bear interest at 0.5% p.a (2017: 0.5%).

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

The interest rates applied for term deposits as of 31 December 2018 were as follows:

(in %)	12 months	24-36 months	48-60 months
ALL	0.00 - 1.40	2.00 - 2.30	2.50 - 3.00
USD	0.00 - 1.00	1.10 - 1.20	1.30 - 1.40
EUR	0.00 - 0.40	0.50 - 0.60	0.70 - 0.80

31 December 2017

(in %)	12 months	24-36 months	48-60 months
ALL	0.00 - 1.00	1.5. - 1.90	2.10 - 2.50
USD	0.00 - 1.00	1.10 - 1.20	1.30 - 1.40
EUR	0.00 - 0.30	0.35 - 0.40	0.45 - 0.50

26. Subordinated debt

	2018	2017
Subordinated Debt		
ProCredit Holding	617,100	664,750
Accrued interest	19,638	21,155
Total	**636,738**	**685,905**

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

27. Other liabilities

	2018	2017
Payments in transit	27,960	176,320
Sundry creditors	114,228	155,012
Accrued expenses	16,540	15,264
Deferred fee income	1,357	1,343
Other financial liabilities	**160,085**	**347,939**
Tax and social charges	19,073	16,653
Other provisions	49,315	38,064
Total	**228,473**	**402,656**

Other provisions relates to provisions for impairment losses for off-balance sheet items and provisions established for legal cases. They represent best estimates of the amounts with which the legal cases will be settled in future periods. The movement in other provisions for the years 2018 and 2017 is presented below:

	Off-balance sheet items	Legal cases	Staff terminations	Other	Total
Balance as at 1 January 2017	5,162	14,942	-		20,104
Provisions made during the year	3,744	3,232	16,205		23,181
Provisions reversed during the year	(3,606)	(1,615)	-		(5,221)
Balance as at 31 December 2017	**5,300**	**16,559**	**16,205**	**-**	**38,064**
IFRS 9 Adjustment	17,936	-	-		17,936
Provisions made during the year	8,734	731	-		9,465
Provisions reversed during the year	(2,678)	(1,785)	(14,557)	2,870	(16,150)
Balance as at 31 December 2018	**29,292**	**15,505**	**1,648**	**2,870**	**49,315**

28. Share capital and legal reserves

At 31 December 2018, the authorised and issued share capital of the Bank was comprised of 388,345 (2017 347,750) shares with a value of EUR 28,698,696 (2017 EUR 25,698,725). In August 2018 the bank increased its share capital by EUR 2,999,971. The Parent and sole shareholder of the Bank is ProCredit Holding AG& Co. KGaA (the 'Parent'), a holding company based in Frankfurt am Main, Germany.

	Number of shares	In EUR	%
ProCredit Holding	388,345	28,698,696	100
	388,345	**28,698,696**	**100**

Share Capital	At 1 January 2018	New shares issued	At 31 December 2018
Number of outstanding shares	347,750	40,595	388,345
Share capital	**25,968725**	**2,729,971**	**28,698,696**

Legal reserves

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

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, until the investment is derecognised, or impaired. The movements in the fair value reserve are presented in note 19.

29. Commitments and contingencies

	2018	2017
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	1,387,411	2,426,117
International guarantees	384,815	386,502
Local guarantees	487,743	358,615
Letters of credit	155,571	164,950
Less: Provisions recognised as liabilities	(29,292)	(5,299)
Total	**2,386,248**	**3,330,885**
Credit commitments		
Unused credit card facilities	23,769	88,708
Unused overdraft limits	869,304	1,094,220
Non-disbursed loans tranches	-	58,607
Unused portion of credit lines	494,338	1,184,582
Total	**1,387,411**	**2,426,117**

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2018 will be incurred and thus no provision for losses has been included in these financial statements.

Legal proceedings

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that the possibility of an outflow of economic benefits in relation to legal claims outstanding as at 31 December 2018 and 2017 is remote, except the cases the provision was recorded as shown in note 27.

Lease commitments

The Bank leases premises to perform its operations.

In general, the operating lease contracts are cancellable upon a 90 days period notification. The maximum non-cancellable lease commitments payable not later than 1 year approximate ALL 7,071 thousand (2017: ALL 12,218 thousand). Rent expenses charged during the years 2018 and 2017, are presented in Note 10.

Commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Financial guarantee	872,557			**872,557**
Performance guarantees				
Letters of credit	155,571			**155,571**
Other guarantees				
Total Guarantees and Letter of Credits	**1,028,128**			**1,028,128**
Loans commitments not yet disbursed				
Total credit related commitments	1,355,235	4,530	27,646	1,387,410
Less: Provision for guarantees and Letter of Credits	(19,656)			(19,656)
Less: Provision for loan commitments	(9,585)	(50)	-	(9,635)
Total commitments	**2,354,122**	**4,480**	**27,646**	**2,386,248**

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

30. Related party transactions

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

The Bank has a management services agreement with ProCredit Holding AG & Co. KGaA AG, for providing the Bank with personnel in the high level management of the Bank, including one Member of the Management Board. Management fees paid to ProCredit Holding AG & Co. KGaA AG in 2018, were ALL 55,078 thousand (2017: ALL 55,336 thousand).

Further, in the course of conducting its banking business, the Bank entered into business transactions with related parties and the balances and transactions with the ProCredit Holding AG & Co. KGaA AG, parent company and affiliated entities under common control at 31 December 2018 and 2017 are presented below:

2018	ProCredit Holding	PCB Germany	PCB Kosovo	Quipu	ProCredit Academy	Other Procredit	Key Management	Total
Assets								
Cash and loans to financial institutions	-	2,838,807	14,507	-	-	-		2,853,314
Other Assets	758	-	3,888	-	-	-		4,646
Liabilities								
Other Liabilities	3,618,655	3,215,163	1,949	3,668	-	441		
Profit or loss transactions								
Income	-	(998)	-	-	-	-		(998)
Expense	143,355	31,374	7,487	220,527	29,520	4,661	47,428	484,352

2017	ProCredit Holding	PCB Germany	PCB Kosovo	Quipu	ProCredit Academy	Other Procredit	Key Management	Total
Assets								
Cash and loans to financial institutions	-	3,428,376	11,656	-	-	-		3,440,032
Other Assets	718	-	5,840	19,094	-	-		25,652
Liabilities								
Other Liabilities	2,015,217	2,329,441	1,482	5,893	-	-		4,352,033
Profit or loss transactions								
Income	-	4,332	2,074	-	-	-		6,406
Expense	106,998	20,684	11,288	152,041	35,775	1,942	49,767	378,495

31. Events after the reporting date

Based on the board of Directors decision dated 27.02.2019, the resignation of Borislav Kostandinov, Member and Chairman of the Board of Directors, was approved, and Eriola Bibolli was elected as Member of the Board of Directors.

There are no events after the balance sheet date that would require either adjustments or additional disclosures in the financial statements.

32. Accounting policies applicable before 1 January 2018

Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value measurement Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. The Bank has no instruments where the fair value at initial recognition differs from the transaction price.

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

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

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

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

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

A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment of loans and advances to customers is based upon a review of several factors attended to the credit, contain the weaknesses that are inherent in a credit, or of whether there is a probability that a portion of the loan amount will not be paid.

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

- Default or delinquency in interest or principal payments;
- Default in repayment of interest or principal in other financial institutions ("FI"), subject of certain thresholds;
- Liquidity difficulties of the borrower (for example, liquidity ratio, equity ratio, net income percentage of sales);
- Breach of contract covenants or conditions;
- The borrower considers bankruptcy or a financial reorganisation;
- Deterioration of economic and market conditions.

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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss for the year.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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.

Collective assessment is established based on a credit risk model that considers the Probability of Default ("PD") factor and Loss Given Default factor ("LGD") adjusted as appropriate for the local circumstances. The PD factor is observed through a twelve-month period while the recovery rate which is calculated for a 24 months period. The input data in the model is updated on the annual basis for three separate segments (retail, business and credit card exposures) and final loan loss provision rates derived from the model are ultimately subject of Risk Management Committee ("RMC") and Board of Directors ("BoD") approval.

For the purposes of a collective evaluation of impairment, the Bank classifies the portfolio into the following categories:

- Standard: arrears 1-30 days
- Watch: arrears 31-60 days
- Substandard: arrears 61-90 days
- Doubtful: arrears 91-180 days
- Loss: arrears > 180 days

The PD and LGD factors used to determine the allowance levels presented above are derived from the Bank's historical default information. The Bank has applied an additional 10% conservative factor for collective provision, aiming to account for further losses that might result from any adverse external development or change in the default rate. For specific impairment that are individually impaired loans the bank uses the following approach.

Non-performing loans ("NPL") loans that are past due more than 90 days and where financial deterioration is observed, are subject of specific provision.
For NPL cases below EUR 30 thousand, the exposure at default ("EAD") at the reporting date is multiplied by 24 months Recovery Rate for each segment and the remaining exposure is provisioned 100%.

For NPL cases above EUR 30 thousand, the bank performs individual assessment of impairment by estimating a cash inflow of up to 10 years which is discounted with the effective interest rate of each facility. Collection forecast is based on prudent and realistic estimates which considers the following credit enhancement factors such as: collateral market value and its liquidity, historical cash flow, third party guarantor/codebtor capacity, time duration for the liquidation/repossession of the assets and legal country environment as external factor. The bank review the collection estimate on monthly basis.

Restructured credit exposures that are past due less than 90 days and where no financial deterioration in the repayment is observed are classified as performing exposures, otherwise exposures are classified as non-performing restructured credit exposures. A restructured credit exposure is classified in the substandard category or worse until sustained performance is observed. The restructured exposures are monitored and their classification is improved only after four regular consecutive repayments are observed. When a loan is uncollectible, it is written off against the related provision for loan impairment. As per bank internal procedures, loan is written off based on two criteria: delinquency and collateral type.

33. Accounting policies applicable before 1 January 2018 (continued)

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 the profit or loss in impairment charge for credit losses.

Impairment of available for sale financial assets

The bank determines that AFS investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. In absence of domestic market-to-market prices and yields for AFS bonds, the calculation of fair market value of AFS is done on daily basis based on German generic bond curve. The booking of revaluation in banking books is done by finance department on each reporting date. On a monthly basis, the finance department obtains the implied yield (market yield) based on Bloomberg data which is provided by the treasury department.

Derivative financial instruments

Derivative financial instruments which includes foreign exchange contracts are carried at their fair value. Derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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

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As at 31 December 2018