ProCredit Bank

Kosovo

Annual Report 2013

Contents

Mission Statement 3
Political and Economic Environment 5
Financial Sector Developments 6
Deposits and Other Banking Services 6
Lending 8
Financial Results 12
Outlook 13
Risk Management 14
Staff and Staff Development 18
Financial Statements 22

Mission Statement

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

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

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

Financial Statements

Management Board
from top left
to bottom right:

Gazmend Rrustemi
Senior Manager

Besnik Berisha
Senior Manager

Rezak Fetai
Senior Manager

Eriola Bibolli
Deputy Chief Executive Officer

Ilir I. Aliu
Chief Executive Officer

Nora Rraci
Senior Manager

Political and Economic Environment[1]

As in previous years, the political environment in Kosovo in 2013 was shaped by significant events relating to the EU-facilitated technical dialogue between Kosovo and Serbia, which started in 2011. The most important outcome of these negotiations is the decision of the European Council to authorise the opening of negotiations for a Stabilisation and Association Agreement. In this respect, 2013 has been an historic year for Kosovo on its path to the European Union.

However, the events leading to this important achievement were marked by complex political and security concerns in both Kosovo and Serbia, as various groups and political fractions showed severe resistance towards these developments. The most significant agreement recognised the authority of Pristina over the whole territory of Kosovo, with the governments of both Kosovo and Serbia voting in favour in April. The two parties have agreed that neither side will block or encourage others to block their counterpart's progress on their respective paths to the EU, thus representing a fundamental change in relations between the two sides. Implementation of the "First Agreement" has continued and has already led to a number of irreversible changes on the ground.

In reaction to the agreement, a number of security incidents occurred in northern Kosovo, with the most serious event occurring in September when a member of EULEX (EU rule of law mission) was killed in an attack on an EULEX convoy. The restrained and inclusive approach adopted by Pristina, in combination with Belgrade's positive role, has been the key to preventing any subsequent escalation.

In addition to the bilateral negotiations with Serbia, Kosovo held municipal elections in November 2013. Although a series of political changes were made in the most important cities, the overall outcome of the elections did not change the balance of political powers.

The period under review was an important year with respect to Kosovo's integration into various international institutions. At the end of 2012, Kosovo had become a member of the European Bank for Reconstruction and Development, and in February 2013 the Regional Cooperation Council decided to amend its statute to allow Kosovo to become a participant in its own right, with Kosovo also becoming a member of the Council of Europe Development Bank. In June 2013, Kosovo signed a framework agreement with the European Investment Bank (EIB), allowing EIB to proceed with the financing of projects and the provision technical assistance in Kosovo. This involvement will also facilitate the co-financing of projects with other donors and will support the implementation of various instruments, such as the Western Balkans Investment Framework. ProCredit was the first institution to sign the first agreement as part of ProCredit Holding arrangement.

Nevertheless, as a result of this fragile political and security situation, as well as the difficulties in the Eurozone, Kosovo's economy is not as shielded from the adverse effects of the economic crisis in Europe as it was in the past; and indeed, there are signs of an economic slowdown. The general economic situation remained challenging, with very high unemployment. GDP growth fell from 4.4% in 2011 to 2.5% in 2012 and is expected to be 2.5% in 2013 as well. The banking system remained stable, with an aggregate capital adequacy ratio above 16%, reflecting both higher equity and slowed growth in risk-weighted assets. Despite higher percentages of non-performing loans, the banking sector remains healthy and ready to support economic development as overall conditions improve.

---

[1] Data reported in this section were drawn from the fol lowing sources:

- Communication from the Commission to the European Parliament and the Council (Kosovo 2013 Progress Report); European Commission, Brussels, 16.10.2013
- IMF Country Report No. 13/379: Republic of Kosovo
- International Crises Group

Financial Sector Developments[2]

In 2013, the number and the distribution of financial institutions in Kosovo remained almost the same as the previous year. Specifically, the total number of financial institutions was 82, of which: 9 commercial banks, 13 insurance companies, 2 pension funds, 40 financial auxiliaries and 18 microfinance institutions.

The financial sector's growth trend continued in 2013, with total assets reaching EUR 3.8 billion at mid-year, representing year-on-year growth of 8.1% (2012: 8.0%). This growth continued into the second half of the year and was largely driven by developments in the banking system, where total assets stood at EUR 3.1 billion, an increase of 8.1% (2012: 6.8%). This growth in the banking sector was primarily due to the 7.5% growth in the volume of deposits. In contrast, loan volume only grew by 2.4% (EUR 42.4 million), representing the lowest growth rate and absolute growth recorded to date for the banking sector in Kosovo. This underlines the changed operating environment and the mainly short-term liquidity needs of businesses.

The market share held by the three largest banks (in terms of total assets) declined to 62.6% as of December 2013 (end-2012: 64.7%). ProCredit Bank Kosovo retained its leading position in the banking sector with 25.5% of total assets and a market share of around 27% in both gross loans and deposits.

As a result of the higher growth in deposits as compared to loans, the loans-to-deposits ratio at year-end stood at 73.7% (2012: 77.4%). As a result, the level of liquidity in the banking sector reached record highs, with deposits surpassing the loan portfolio by EUR 660 million. This shift, in conjunction with limited possibilities for placing liquidity, pushed deposit interest rates downward, thereby offsetting the potential negative effects of the slowed growth in lending.

The developments described above, along with prudent regulation from the Central Bank of Kosovo, allowed the banking system to maintain its resilience in 2013. In addition, the banking system was able to rely on funding from stable domestic deposits, thus limiting the negative effects of the increase in non-performing loans to 8.7% as of December 2013 (2012: 7.5%).

The net profit of the banking sector, calculated according to CBK rules and regulations, stood at EUR 26.6 million in 2013, which represents a 43.0% year-on-year increase (2012: EUR 18.6 million).

Another positive development in the sector was the increase in the limit on deposit insurance from the Deposit Insurance Fund of Kosovo, further contributing to the credibility of the financial sector.

In 2013, continued development in the market for government treasury bills was reflected in the increased amount invested by banks, which by year-end amounted to EUR 100.1 million (2012: EUR 59.9 million).

Deposits and other banking services

Client deposits continued to be a focal point for ProCredit Bank Kosovo, and this is reflected in the bank's leading position in the deposit market. The bank's success in this area is a result of our commitment to strong corporate values and to transparency and solid relationships with clients. At year-end, total deposits amounted to EUR 653.2 million. In accordance with the bank's strategy, the breakdown of the deposit portfolio has changed in comparison with the previous years: current accounts now make up 35.7% of total deposits, savings accounts 23.8% and term deposit accounts 40.5%.

---

[2] Data reported in this section were drawn from the fol lowing sources:
- Financial Stability Report No. 4 (December 2013), Central Bank of Kosovo
- Monthly Statistics Bulletin No.148 (December 2013),Central Bank of Kosovo
- Kosovo Banking Association
- IMF Country Report No. 13/379
- Quarterly Assessment of the Economy No. 5, Q4/2013

Private client deposits, which comprise the vast majority of our deposit portfolio, continued to be a major part of our strategy and our private client staff regularly emphasised and promoted the important role of savings among our clients. Due to our close focus on our core savers and salary receivers, private client deposits stood at EUR 561.1 million at year-end. In line with this strategy, current and savings accounts grew by 15.2% and 8.3%, respectively, while term deposit accounts decreased by 14.2%.

Furthermore, 2013 was marked by significant organisational changes and important developments in all areas of the bank's card and e-Business and related services. In particular, outsourcing the maintenance of automated banking devices was an ongoing process throughout much of the year. Completing the transition to new operating processes with very little interruption in services can be considered a success, and since then even more has been done to optimise the processes and improve device uptime and user experience.

e-Banking saw major improvements with the introduction of a utility payments functionality and a mobile web version. The former allows clients to pay a broad range of bills from their home or office in a few simple steps, and the latter presents a touch-screen-friendly mobile interface which helps clients to easily perform common functions on the go.

The introduction of self-service areas, including ATMs capable of accepting deposits, was also an important step towards bringing fundamental services from the branch to automated banking devices. This concept will continue to be improved on the basis of experience, ensuring that our services are user-friendly and meet the expectations of our clients.

With the launch of e-Commerce, our bank became the first in the market to offer merchants and businesses a way to accept payments online, enabling online sales of their products and services. Usage of these services has increased steadily and demand will remain high as more merchants from various sectors are integrated in the future. Usage of SMS banking also grew significantly as a result of our co-operation with the telecommunications provider Vala.

Furthermore, many internal processes were improved by streamlining our processes for card delivery to branches and by implementing automatic SMS services for internal notices, thereby positioning our staff to meet long-term goals for the efficient provision of card-related and electronic services.

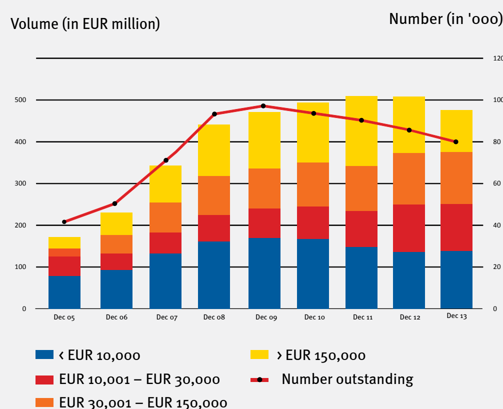
Lending

In accordance with ProCredit Bank's vision and its commitment to providing high quality banking services to its customers in a professional manner, our institution has made continuous efforts to design services which help our clients to manage their finances more easily.

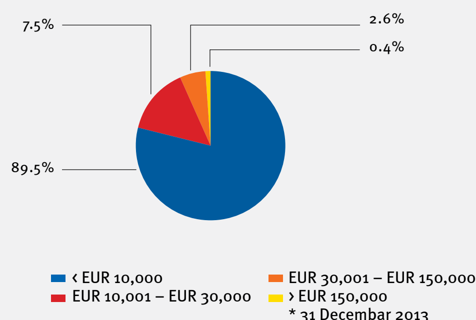
During 2013, ProCredit Bank continued to provide strong support in the implementation of investment plans of our private clients. The bank disbursed EUR 65 million to this client group during the year. At the end of 2013, ProCredit Bank's portfolio of loans to private clients amounted to more than EUR 122 million, comprising home improvement loans (over 86%, or about EUR 110 million) and EKO loans (11%). Moreover, although this year was characterised by stronger competition in private client lending with severe focus on consumer lending ProCredit Bank managed to maintain the quality of this portfolio composed of home improving loans and salary overdraft at a very good level.

In terms of business clients, the key to success for ProCredit Bank Kosovo in 2013 was its positioning in the market as the first choice for small and very small businesses, as well as its high quality banking services for medium-sized businesses. This

Loan Portfolio Development

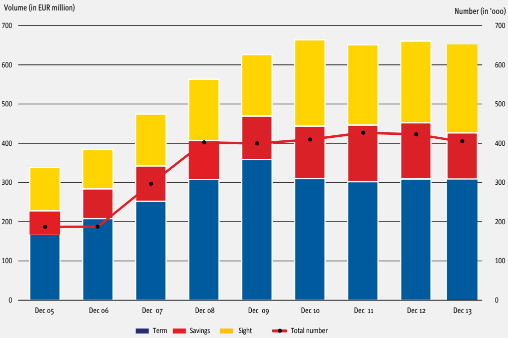


Number of Loans Outstanding Breakdown by Loan Size *

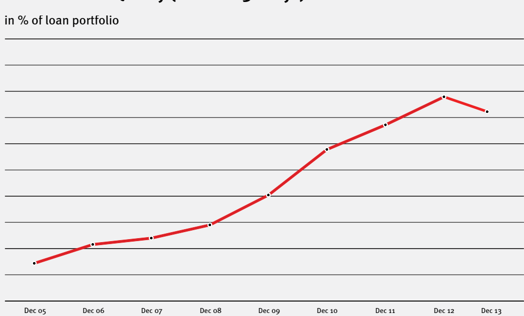


* 31 Decembar 2013

Customer Deposits



Loan Portfolio Quality (arrears > 30 days)



year there was a renewed focus on staff quality and responsibility for establishing and developing relationships based on the needs of small and very small business clients.

During 2013 there was limited investment in fixed assets or real estate. Based on our observations, most disbursements were oriented towards short-term investments in working capital. The bank disbursed 1,908 new loans and other short term credit facilities to Small business clients in 2013, amounting to EUR 63.8 million. At the same time the average disbursed amount of annuity loan has increased to EUR 50.680. The total portfolio of loans to Small businesses amounted to EUR 102 million at year-end 2013.

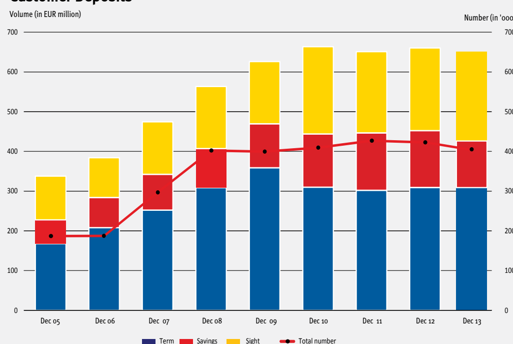
With regard to Very Small businesses, primary objective of the bank during the year 2013 was to focus on serving business that have created solid positioning in their local market and their business model promise potential for future development. In this course the bank increased the minimum lending treshhold to EUR 5'000 that resulted in the increase of the average amount disbursed per loan for 49.0%, compare to year 2012. The participation of new credit clients has increased during 2013, hence the bank has credited 1,372 new clents in amount of EUR 12.8 mil.

The total portfolio of loans to this client group amounted to EUR 90.1 million at the end of 2013.

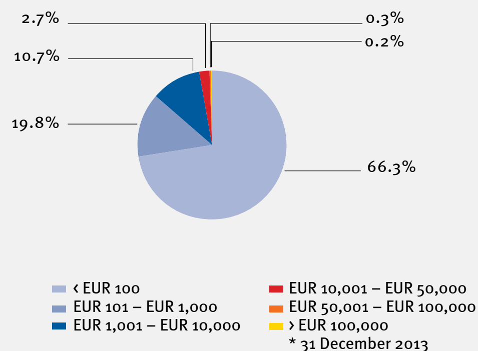
Agricultural producers and processors of local foods are a very important group for ProCredit Bank, which is why we have adopted a supporting role in the supply chain by establishing collaborative partnerships to promote the sustainable development of the agricultural sector in Kosovo. The focus in agricultural lending during 2013 was on capital investments, where the total portfolio amounted to EUR 37 million at year-end. As a result of the increase in the minimum loan size to EUR 5,000, the total portfolio of loans to this client group decreased by EUR 0.5 million; however, at the same time the portfolio of loans over EUR 5,000 grew by EUR 3.5million. Our focus in agricultural lending for 2014 will continue to be on capital investments, particularly by adapting bank products to the needs of farmers and supporting measures that strengthen their businesses.

Additionally, in 2013 we focused on businesses which had potential for further development and which were creating steady income. By introducing dedicated client advisers for each business client category we were able to further improve our service quality and our relationships with the clients.

Customer Deposits



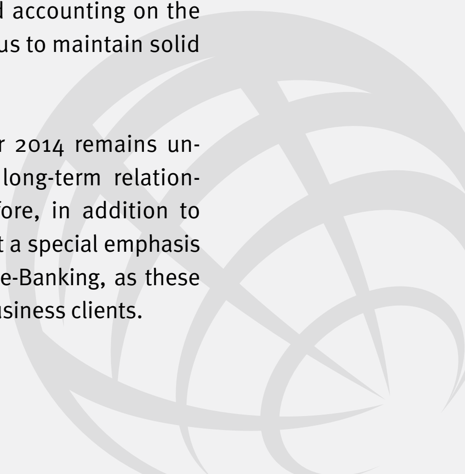
Number of Customer Deposits Breakdown by Size*



During 2013, the Medium Business Department was mainly focused on structuring and refining the client database and thus the loan portfolio. As a result of this process, the bank recorded a decrease in the portfolio of loans to this client category, due mainly to the introduction of stricter lending policies regarding business formalisation and transparency requirements towards state authorities, as these aspects are among the key eligibility criteria for working with ProCredit Bank Kosovo.

As with the other business client categories, Medium business lending in 2013 was focused on building and maintaining strong relationship with our clients. The bank provided regular advice on how to improve official financial reporting and optimise internal bookkeeping systems. This will continue to be an important activity in the future, as we are convinced that financial education can make an important contribution to the development of the economic sector in general, and enhanced financial reporting and accounting on the part of our borrowers will help us to maintain solid loan portfolio quality.

The main goal in this area for 2014 remains unchanged: maintaining strong long-term relationships with our clients. Therefore, in addition to providing credit services, we put a special emphasis on other banking services and e-Banking, as these are likewise beneficial for our business clients.



Financial Results

ProCredit Bank Kosovo's balance sheet remained stable, with structural changes on both the asset and liability side ensuring that the financial results were in line with projections.
Total assets at year-end stood at EUR 791.1 million, a slight decline of 1.7% compared to 2012. The development on the asset side comes as a result of the decline in the total loan portfolio and the nearly flat development of the deposit base, which at year-end totalled EUR 666 million.

Due to the strategic decision to focus on our core client groups and introduce stricter lending criteria for larger loans, the loan portfolio declined by a total of EUR 38.6 million throughout 2013. The 7.1% decline in the gross loan portfolio also reflects the changed environment in which our business clients operate and the increased demand they have for short-term loans. In line with the trend throughout the banking sector, provisions for loan impairment also rose, amounting to EUR 34.2 million at the end of 2013.
More than 95% of the bank's liabilities were customer deposits, which stood at EUR 666 million at year-end, down 1.2% from the previous year. The change in the structure of the deposits was one of the most important developments in 2013. The share of term deposit accounts in total deposits decreased by 6% (by EUR 44 million). At the same

time, the volume of current accounts increased by EUR 25 million and the volume of savings accounts increased by 12 million. This change had a positive impact in the form of lower interest expenses. The ratio of customer deposits to the gross loan portfolio stood at 140.3%, underlining once again the stability of the funding base.

The bank's liquidity position remained very strong in 2013, with liquid assets accounting for 40.9% of total assets, and the ratio of liquid assets to deposits standing at 48.6%. In accordance with ProCredit's conservative investment policy, excess liquidity was invested in highly rated sovereign bonds and in highly rated banks in OECD countries.

Interest income amounted to EUR 68.4 million, a decrease of 7.2% over 2012, corresponding to the trend recorded for the gross loan portfolio. Interest income represented 84.8% of total operating income, with the majority (99.6%) being earned from loans. Interest expenses amounted to EUR 15.5 million, a 7.4% decrease compared to 2012, mainly due to changes in the deposit structure and a slight decrease in deposit interest rates.

Income from fees and commissions totalled EUR 9.9 million (2012: EUR 9.7 million). This item is composed of account maintenance fees (14.0%), fees on domestic and international money transfers (39.9%), card fees (31.2%), and fees from trade finance products and other commission income (14.9%). In 2013 total net fee and commission income remained stable at EUR 6.6 million.

Total operating expenses in 2013 were EUR 28.6 million, representing a decrease of 6.0% compared to 2012. The lower amount was mainly due to the decrease in other operating costs and personnel expenses. Strict budget control and income development resulted in a stable cost-income ratio, which at year-end stood at 46.2%.
ProCredit Bank Kosovo posted a net profit of EUR 16.1 million for 2013, representing a return on equity of 16.37% (2012: 19.91%). In June 2013, the bank paid out EUR 25 million in dividends from the previous year's profits. The institution also recorded an increase in paid-in capital of EUR 5 million, which brought the capital adequacy ratio to 19.38% at year-end (2012: 19.55%). This ratio was well above the minimum level required by the local authorities (12%) and the ProCredit group capital management limits, and serves as a sign of the strong commitment of the bank's shareholders.

Outlook

The economic outlook for Kosovo in 2014 will continue to be positive, although the slower growth rates in the past two years serve as serious warnings and a reminder of the fragility of development, even for economies not fully integrated into the global financial and economic structures. As an election year, economic development in 2014 will be determined to a high degree by the political agenda.

The positive outlook for economic growth is based on stable consumer demand and planned government expenditures. Furthermore, the implementation of a binding cap on overall government deficit at 2% of GDP will ensure that the general economic development remains within the framework of defined parameters and no major adverse effects are experienced. Nonetheless, 2014 will surely be a very challenging year for businesses in Kosovo.

As a first choice for businesses, ProCredit Bank Kosovo has undertaken a series of activities to ensure that our business clients will continue to benefit from the reliable services of our bank in 2014. The strategic focus will be to deepen our relationships with clients through the efficient provision of a complete range of services. In addition, focusing on the advising role of our staff will ensure that our clients receive the best advice and the highest quality service. Among our strategic targets for 2014 is a special focus on green lending and investment loans, as we are convinced that this is a responsible and long-term means to promote the development of enterprises and the economy as a whole.

ProCredit Bank will continue offering excellent services to private clients in a responsible way. This will be achieved by designating selected staff to be responsible for private clients. Moreover, investments in technology which enhance banking processes will play an important role in our investment decisions in 2014 and beyond. Overall, we expect all of our strategic targets to be achieved with the support of our most important asset: our staff. In this respect, training and professional development of our staff, with a special focus on ethical banking, will continue to be our highest priority.

Risk Management

a. Managing Credit Risk

The core business of ProCredit Bank Kosovo consists of lending to Very Small and Small business clients. Lending to these businesses as well as Medium business and private clients is the bank's main asset-side operation. Therefore, classical credit risk (i.e. the risk that borrowers will be unable to meet their contractually agreed obligations towards the bank or will only be able to meet them in part) is the most important risk that the bank faces. Therefore, credit risk accounts for the largest share of risk in the context of the risk-bearing capacity calculation.

The basic principles used to manage credit risk are set forth in the bank's Credit Risk Management Policy and Collateral Valuation Policy. These policies have been developed on the basis of the ProCredit Group Credit Risk Management Policy and the Group Collateral Valuation Policy, which together reflect the experience gained throughout the group over more than two decades of successful lending operations in developing countries and transition economies. These policies are in full compliance with the laws and regulations of Kosovo.

In managing credit risk the bank consistently applies certain principles in order to mitigate credit risk. These include: intensively analysing the debt capacity of the bank's clients, avoiding over-indebting clients, carefully monitoring credit exposures, closely managing problem credit exposures, implementing carefully designed and well-documented processes, applying the four-eyes principle, building personal and long-term relationships and maintaining regular contact with clients, and investing in well-trained and highly motivated staff.

Moreover, credit risk is further mitigated by the fact that the bank's credit portfolio is highly diversified. The diversification of the credit portfolio is an integral part of the credit risk management policy. Exposures are diversified across economic sectors, client groups, Very Small, Small and Medium businesses, as well as private and institutional clients. A further characteristic of the bank's approach is that it seeks to provide clients with simple, easily understandable products. This leads to a high degree of transparency not only for the client, but also from a risk management point of view. Both the high degree of diversification and the bank's simple, transparent products and procedures reduce the overall risk profile of the bank.

Various methods of credit risk management are applied when dealing with different categories of clients and credit exposures. The key features of the credit processes for business clients and private clients and for the different credit exposure categories are as follows: segregation of duties for Medium credit exposures, standardised processes in lending to Very Small and Small business clients as well as private clients, requirements regarding the informational basis for the analysis of credit exposures, set criteria for lending decisions, and varying collateral requirements based on availability of documentation, the exposure amount and the client's credit history.

Since the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet a payment deadline is treated as an initial sign of potential default and draws an immediate response from the bank. When a payment of interest or principal is overdue by more than 30 days, the loan in question is assigned to the portfolio at risk (PAR>30 days), which serves as the key indicator for the quality of the loan portfolio and for measuring classical credit risk.

In 2013 the bank's overall PAR>30 days increased. The sharpest rise in PAR occurred in the category of business loans greater than EUR 150,000 (Me-

dium business exposures) and loans up to EUR 30,000 (Very Small business exposures), as the ongoing impact of the financial crisis lowered the level of liquidity in the business sector. However, it should be noted that, according to figures published by the Central Bank of Kosovo, ProCredit Bank's percentage of non-preforming loans (NPL) is better than the average NPL for the banking sector as a whole.

ProCredit Bank Kosovo takes a conservative approach to loan loss provisioning. Allowances for individually significant exposures with signs of impairment are set aside based on the results of an individual assessment of impairment, while provisioning for impaired loans that are not individually significant is calculated according to historical default rates. For all unimpaired credit exposures, portfolio-based allowances for impairment are made. At the end of the year the coverage ratio (loan loss provisions according to CBK, as a percentage of PAR>30 days) stood at 170.5%, and as a percentage of the total loan portfolio provisions amounted to 9.69%. Loans considered to be irrecoverable are consistently written off. Nonetheless, recovery efforts continue even after a loan has been written off, and collateral collection is rigorously enforced.

b. Managing Risk from Exposure to Counterparties and Issuers

Risk from exposure to counterparties and issuers is defined as the risk that a counterparty or issuer of securities is not willing or able to meet its obligations. This risk stems specifically from the bank's need to invest its excess liquidity, to conclude foreign exchange transactions, and to provide cover for specific risk positions.

These risks are managed by the bank through the counterparty and issuer risk management policy and the treasury policy, which define the processes for selecting counterparties, setting limits, defining permitted transactions and processing rules. The bank's policies are in compliance with the regulations of the Central Bank of the Republic of Kosovo.

ProCredit Bank Kosovo takes a conservative approach to managing this risk and thus does not perform any speculative trading activities. As a general rule, only highly rated institutions with a good reputation and financial stability are considered to be acceptable counterparties for the bank.

c. Managing Liquidity Risk

ProCredit Bank manages liquidity risk through effective policies and procedures in accordance with regulatory requirements. Controlling and reducing liquidity risk is further supported by the bank's business model. The bank's diversified, high quality credit portfolio means that cash inflows are fairly predictable. Customer deposits are mobilised from a large number of depositors with relatively small amounts. At the end of 2013, the average balance for deposit accounts of all types was EUR 1,559 and the ten largest depositors accounted for only 3% of the total volume of deposits.

As part of liquidity management, the bank has defined and consistently follows key liquidity indicators. In addition, liquidity stress tests are performed on a regular basis based on defined scenarios that help the bank to analyse liquidity positions considering potential internal or external shocks. During 2013, ProCredit Bank had a very satisfactory level of liquidity characterised by a high level of highly liquid assets

d. Managing Currency Risk

Currency risk is managed by ProCredit Bank through the currency risk management policy, which is in accordance with the requirements of the CBK's Regulation on Risk from Foreign Exchange Operations.

ProCredit Bank has a low level exposure to currency risk as it holds no speculative open currency positions. At year-end 2013, the bank had an open currency position for USD of 0.08% in relation to Tier 1 capital (0.09% as per CBK) and an open position for all foreign currencies of 0.09% relative to Tier 1 capital (0.10% as per CBK).

Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously. The limits established by the bank for this risk were not exceeded at any point during 2013.

e. Managing Interest Rate Risk

Interest rate risk is managed in accordance with the bank's policies. The bank performs maturity gap analyses on a regular basis (based on repricing maturity) and also applies stress tests which simulate movements in interest rates in order to measure the potential impact on the economic value indicator and interest income. The results of these analyses are reported on a regular basis to the bank's Risk Management Committee. In addition, the bank offers loans with variable interest rates in order to control interest rate risk.

f. Managing Operational Risk and Fraud

Operational risk management in ProCredit Bank is based on established risk management policies and is implemented by the bank in accordance with the requirements of regulatory authorities in Kosovo and Germany. This approach, supported by intensive training of staff at all levels, has proven to be effective in reducing, and in some instances even eliminating, operational risk.
To mitigate operational risk and fraud, all major bank processes are properly documented and contain control mechanisms. The dual control principle and the division of tasks between departments and functions are applied wherever necessary and appropriate in the bank's systems and processes.

Great attention is paid to personal integrity through the implementation of the code of conduct and training programmes designed to promote a culture of transparency and risk awareness. Operational risk, fraud and information security, as well as the channels for reporting risk events are addressed as part of regular staff training.

The bank uses a risk event database to ensure that operational risks and cases of fraud are addressed in a systematic manner, and that documentation is created on corrective and preventive measures.

As part of its operational risk management and fraud framework, the bank makes regular assessments of processes to identify potential risks and control deficiencies which can be addressed with appropriate measures. Moreover, material changes in the bank's processes and services, both new and current, are submitted to a review and any risks detected are subject to approval. In addition, key risk indicators are monitored by the bank on a regular basis.

ProCredit Bank places great importance on its Business Continuity Plan, ensuring that the bank can maintain or restore its main operations on a timely manner in case of an extraordinary event.

g. Preventing Money Laundering

ProCredit Bank Kosovo strongly supports the fight against money laundering and terrorist financing. Policies and procedures against money laundering in our bank are designed to ensure that our institution is in compliance with the requirements and obligations set forth in Kosovo legislation, as well as regulations, industry rules and guidelines for the financial services sector established by the Central Bank of the Republic of Kosovo; this includes the requirement to have adequate systems and controls to reduce the risk that the bank's services are used to facilitate money laundering, terrorist financing or financial crimes in general.

In addition to adhering to local policy, the bank has implemented the ProCredit group's policy on fighting money laundering, in line with the requirements established in German and EU legislation. No client is accepted and no transaction is executed unless the bank understands and agrees with the fundamental purpose of the business relationship. Additional automated protection is provided through the use of three modules of AML software: Siron Embargo, Siron PEP and Siron AML, provided by Tonbeller AG.

In our bank, responsibility for fighting against money laundering is held by the Anti-Money Laundering Unit, which is part of the Anti-Money Laundering and Compliance Department. The AML Unit in our bank, in co-operation with the Group Anti-Money Laundering Department, conducts a risk assessment on an annual basis and updates the anti-money laundering policy as necessary. ProCredit Bank prepares quarterly and annual reports on anti-money laundering activities. The AML Unit consists of three AML officers who support the Head of AML and Deputy Head of AML, as required by local banking regulations and laws. In accordance with Law No. 03/L-196 on the Prevention of Money Laundering and Terrorism Financing, any cash transaction that exceeds EUR 10,000 is reported to the Financial Intelligence Unit (FIU-K) by the bank. In addition, any attempts to execute transactions which give rise to suspicion of money laundering, terrorist financing or any other criminal activity, are reported by the bank to FIU-K. Bank staff attend intensive training (local and international) on the latest developments in the area of AML.

h. Capital Adequacy

The bank's capital adequacy is calculated on a monthly basis and reported to bank management through the Risk Management Committee along with future forecasts to ensure compliance with regulatory requirements on capital adequacy.

The bank was well capitalised throughout 2013, maintaining capital adequacy ratios above the limits set by the bank's policies and banking regulations. At the end of 2013, the total capital adequacy ratio stood at 19.7% (19.4% as per CBK), which significantly exceeds the minimum ratio of 12% set by the regulatory authority. Furthermore, the Tier 1 capital adequacy ratio was 14.3% (13.7% as per CBK), which likewise exceeds the 8% minimum ratio set by CBK.

During 2013, ProCredit Bank held an overall "B" rating issued by the "FitchRatings" agency.

Staff and Staff Development

ProCredit Bank wants to make a difference in the market, not only in terms of the quality of the financial services it provides, but also in terms of staff qualifications. Therefore, the bank invests in human resource development on a continual basis.

Staff development is a key strength of ProCredit Bank. As in the previous years, ProCredit Bank has placed a strong focus on the training and development of our staff, which remains our most valuable asset. Only professional and well-trained staff are able to provide excellent service to our clients. In this context, this year a new training centre was rented to provide an improved training environment for existing staff and for the young recruits who will join the ProCredit team.

Growing together with our clients and understanding their business and financial needs is at heart of the business model of ProCredit Bank. Accordingly, Business Client Advisers (experts in serving business clients) were brought together this year for specialised training in the training centre. This training focused on providing for client needs and offering the services that best fit the specific requirements of business clients.

In addition, we also aim to provide our private clients with excellent service. To help ensure that we are able to offer professional service to this client group, in 2013 a highly specialised training event was held for the experts who serve private clients. In connection with the bank's continuous focus on staff development, we invested EUR 860,000 in training in 2013, which translated into an average annual investment of around EUR 1,000 per employee. In terms of training days per employee, each member of staff received an average of 10 days of training in 2013.

Training and the ProCredit Academies

In addition to the professional trainings organised in the training centre, more advanced trainings are conducted in the ProCredit Regional Academy in Veles, Macedonia, and in the central ProCredit Academy in Fürth, Germany. As English is a second working language in ProCredit Bank, English language courses are provided to staff at various levels. This year alone, thirty nine employees participated in English training courses in the academies.

The academies provide a highly convenient and enriching multicultural environment where professional trainings are provided to managers, middle managers, and future management staff. These training courses are organised in different blocks held over a period of one year for the regional academy and three years for the central academy. In 2013, nine managers graduated from these academies: seven from the regional academy in Macedonia and two from the ProCredit Academy in Germany.

Finding New ProCredit Staff (Young Bankers Programme)

A strong focus in 2013 was placed on identifying young recruits willing to join the ProCredit team. Our dedicated training and recruitment programme, the Young Bankers Programme (YBP), was conducted for the third year during 2013. The YBP is how the bank finds and integrates interested young people into ProCredit. Young Bankers receive training for six months in various subjects connected to everyday life (e.g. society, development, globalisation and environment, financial crises) and to banking. Upon successful completion of this intensive training period, they may have the opportunity to become part of the ProCredit Bank team.

The bank seeks highly motivated, talented, and friendly people with different academic backgrounds – candidates who are willing to get involved, to learn, and to develop within the institution. The YBP has helped ProCredit recruit individuals who are interested in learning about other languages and cultures. This approach fosters a more comprehensive approach to taking decisions, and enriches the candidates not only academically and professionally but also contributes to their knowledge of ethical and cultural issues.

For more information about the Young Bankers Programme, see our video on ProCredit Bank's website:

http://www.procreditbank-kos.com

Programme structure

The six-month, full-time program is carefully designed to assess and foster the attributes that we are looking for in potential new recruits.

The Young Bankers Programme is therefore highly interactive and covers a broad range of issues. Courses are characterised by open discussions, projects and group work, followed by practical exercises during which the concepts learned in the classroom can be applied.

Building relationships

Regular recruitment events and activities organised in 2013 had a positive impact, helping us to attract applicants with the profiles the bank is seeking. Since the YBP began, 9,704 applications have been received, 232 of which were selected for participation in the programme and 143 of the participants have subsequently been hired. During 2013, 36 candidates were selected to join the YBP, and another 36 individuals completing the programme were hired as employees of the bank.

Fatos Hasani
Deputy Head of Service Centre

Graduated from the Young Bankers Programme in January 2012

The Young Bankers Programme sets ProCredit Bank apart from other banks and institutions in terms of the opportunities it provides for broadening one's theoretical and practical knowledge. It enabled me to learn about all the bank's departments and business processes. After graduating from the Young Bankers Programme, I was given the chance to develop professionally by working in various fields in the bank. Initially I worked as a Small Business Client Adviser, and now I'm Deputy Head of a Service Centre, where I have gained a lot of knowledge and experience. Now I am enrolled in the ProCredit Academy in Germany, and I believe that it will be one of the best opportunities not only to continue the journey of personal and professional development but also to share experiences with colleagues from all the other countries where ProCredit operates.

Financial Statements

Financial statements ended 31 December 2013

General information

Board of Directors
Ms. Helen Alexander - Chairperson
Mr. Rainer Ottenstein
Mr. Borislav Kostadinov
Ms. Birgit Storz
Mr. Qendrim Gashi
Mr. Ilir Aliu

Registered office
Mother Theresa Boulevard, No 16
10000 Prishtina
Republic of Kosovo

Solicitors (in-house)
Preveza Muharremi

Auditors
KPMG Albania SH.p.k Kosovo Branch
14, Sylejman Vokshi Street
10000 Prishtina,
Republic of Kosovo

KPMG Albania Sh.p.k., Kosovo Branch
14, Sulejman Vokshi Street
Pristina, Kosovo

Telephone +381(38)246771
Telefax +381(38)246772
E-mail al-kosovo@kpmg.com
Internet www.kpmg.al

Independent Auditors' Report

To the Shareholder and Board of Directors of
ProCredit Bank Kosovo

Prishtina, 21 March 2014

We have audited the accompanying financial statements of ProCredit Bank Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2012 were audited by another auditor, whose report dated 18 March 2013 expressed an unqualified opinion on those financial statements.

KPMG Albania Shpk Kosovo Branch

KPMG Albania Sh.p.k, Kosovo Branch
14, Sulejman Vokshi Street
Prishtina, Kosovo

KPMG Albania Sh.p.k., Kosovo Branch is a branch of KPMG Albania Sh.p.k., a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registered with the Kosovo Business Registration Agency with Business no. 70291840

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

(All amounts expressed in EUR thousand, unless otherwise stated)	Notes	2013	2012
Interest income	7	68,394	73,735
Interest expenses	7	(15,473)	(16,708)
Net interest income		**52,921**	**57,027**
Fee and commission income	8	9,938	9,726
Fee and commission expenses	8	(3,300)	(3,087)
Net fee and commission income		6,638	6,639
Net gains/ (losses) on available-for-sale securities		558	(1,458)
Net foreign exchange gain		618	713
Other operating income		1,132	1,474
Impairment losses	13	(15,640)	(13,320)
Administrative and other operating expenses	9	(28,608)	(30,438)
Profit before taxation		**17,619**	**20,637**
Income tax expense	10	(1,541)	(2,123)
Net profit for the year		**16,078**	**18,514**
Other comprehensive Income:			
Items that are or may be reclassified to profit or loss			
Net (loss)/gain from revaluation reserve from available-for-sale investments	10	(45)	1,037
Total comprehensive income for the year		**16,033**	**19,551**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the Financial Statements set out on pages 5 to 47.

PROCREDIT BANK KOSOVO
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December
In EUR thousand

	Notes	2013	2012
Assets			
Cash and balances with the Central Bank	11	96,650	138,675
Loans and advances to banks	12	62,218	56,202
Loans and advances to customers	13	440,205	480,907
Available-for-sale ('AFS') financial assets	14	170,090	105,245
Intangible assets	15	1,129	1,142
Property and equipment	16	17,008	18,271
Other financial assets	17	1,608	1,990
Prepaid income tax	10	1,125	895
Other assets	18	1,078	1,434
Total assets		**791,111**	**804,761**
Liabilities			
Due to banks	19	450	1,519
Due to customers	20	665,575	673,987
Subordinated liabilities	21	25,013	25,005
Deferred tax liabilities	11	884	1,047
Other financial liabilities	22	1,758	1,997
Other liabilities	23	1,181	989
Total liabilities		**694,861**	**704,544**
Shareholder's equity			
Share capital	24	56,346	51,346
Share premium	24	4,204	4,204
Contingency reserve	24	511	511
Fair value reserve	24	(269)	(224)
Retained earnings		35,458	44,380
Total shareholder's equity		**96,250**	**100,217**
Total liabilities and shareholder's equity		**791,111**	**804,761**

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 5 to 47.

These financial statements have been approved by the Management Board on 21 March 2014 and signed on their behalf by:

Ilir Aliu
Chief Executive Officer

Rezak Fetai
Senior Manager

Statement of cash flows

For the year ended 31 December 2013

	Notes	2013	2012
Cash flows from operating activities			
Profit before tax		17,619	20,637
Adjustments for:			
Depreciation	16	2,793	2,836
Amortisation	15	662	536
Loss /(gain) on disposal of property and equipment		2,380	(46)
Impairment losses	13	15,640	13,320
Interest income	7	(68,394)	(73,735)
Interest expense	7	15,473	16,780
		(13,827)	**(19,744)**
Changes in:			
Due from banks		-	16
Loans and advances to customers		27,598	(1,428)
Other assets		126	(280)
Other financial assets	17	382	140
Statutory reserve with CBK	11	266	2,518
Due to banks	19	(1,069)	576
Due to customers	20	(8,412)	9,817
Other liabilities	23	192	109
Other financial liabilities	22	(239)	(360)
		5,017	**(8,636)**
Interest received		66,123	73,869
Interest paid		(15,631)	(17,287)
Income taxes paid		(1,469)	(2,080)
Net cash generated from operating activities		**54,040**	**45,866**
Cash flows from investing activities			
Net proceeds from sale of AFS financial assets		(65,403)	(4,806)
Proceeds from sale of property and equipment		170	65
Acquisition of property and equipment	16	(3,909)	(5,892)
Acquisition of intangible assets	15	(649)	(991)
Net cash used in investing activities		**(69,791)**	**(11,624)**
Cash flow from financing activities			
Proceeds from borrowed funds	21	8	-
New capital subscribed		5,000	15,000
Dividends paid	24	(25,000)	(20,000)
Net cash used in financing activities		**(19,992)**	**(5,000)**
Net (decrease)/increase in cash and cash equivalents		**(35,743)**	**29,242**
Cash and cash equivalents at the beginning of the year		**155,357**	**126,113**
Cash and cash equivalents at the end of the year	11	**119,614**	**155,355**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the Financial Statements set out on pages 5 to 47.

Statement of changes in equity

For the year ended 31 December 2013

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
Balance at 1 January 2012	**36,346**	**4,204**	**511**	**45,866**	**(1,261)**	**85,666**
Transactions with owners of the Bank:						
Dividends paid	-	-	-	(20,000)	-	(20,000)
Capital subscribed	15,000	-	-	-	-	15,000
Contributions and distributions	**15,000**	**-**	**-**	**(20,000)**	**-**	**(5,000)**
Total comprehensive income						
Profit for the year	-	-	-	18,514	-	18,514
Other comprehensive income						
Net change in fair value of AFS financial assets	-	-	-	-	1,037	1,037
Other comprehensive income	-	-	-	-	**1,037**	**1,037**
Total comprehensive income	-	-	-	**18,514**	**1,037**	**19,551**
Balance at 31 December 2012	**51,346**	**4,204**	**511**	**44,380**	**(224)**	**100,217**
Transactions with owners of the Bank:						
Dividends paid	-	-	-	(25,000)	-	(25,000)
Capital subscribed	5,000	-	-	-	-	5,000
Contributions and distributions	**5,000**	**-**	**-**	**(25,000)**	**-**	**(20,000)**
Total comprehensive income						
Profit for the year	-	-	-	16,078	-	16,078
Other comprehensive income						
Net change in fair value of AFS financial assets	-	-	-	-	(45)	(45)
Other comprehensive income	-	-	-	-	**(45)**	**(45)**
Total comprehensive income	-	-	-	**16,078**	**(45)**	**16,033**
Balance at 31 December 2013	**56,346**	**4,204**	**511**	**35,458**	**(269)**	**96,250**

The accompanying notes 1 to 33 form an integral part of the Financial Statements.

Notes to the IFRS Financial Statements

For the year ended 31 December 2012
(All amounts expressed in EUR thousand, unless otherwise stated)

1. Reporting entity

ProCredit Bank, Kosovo ("the Bank") was founded on 9 December 1999, and began operations on 12 January 2000. The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Banking Authority of Kosovo ("CBAK") and is currently subject to the Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions, No. 04/L-093. In the previous years, the Bank was subject to the Regulation of United Nations Interim Administration Mission in Kosovo (UNMIK), No. 1999/21 "On Bank Licensing, Supervision and Regulation".

The Bank is a subsidiary of ProCredit Holding AG & Co. KGaA (ProCredit Holding), which controls 100% of the voting shares of the Bank.

ProCredit Bank, Kosovo was the first licensed bank in Kosovo. Its objective is to provide efficient, reliable and easily accessible banking services for all enterprises and private individuals throughout Kosovo.

The Bank's registered office is at Mother Theresa Boulevard, No 16, 10000 Prishtina, Republic of Kosovo. During 2013, the Bank operated with branches in Prishtina, Peja, Prizren, Gjakova, Gjilan, Mitrovica and Ferizaj.

The Board of Directors comprised the following members as of 31 December 2013:

- Ms. Helen Alexander, Chairperson
- Mr. Rainer Ottenstein, Member
- Mr. Borislav Kostadinov, Member
- Ms. Birgit Storz, Member
- Mr. Qendrim Gashi, Member
- Mr. Ilir Aliu, Member and CEO

2. Basis of accounting

a. Statement of compliance

These Financial Statementshave been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Details of the Bank's accounting policies, including changes during the year, are included in Note 3.

b. Basis of measurement

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

c. Functional and presentation currency

These Financial Statementsare presented in EUR, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated

d. Use of judgements and estimates

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statementsare described in notes 4, 5 and 6.

3. Significant accounting policies

Except for the changes below, the Bank has consistently applied the following accounting policies to all periods presented in these Financial Statements.

a. Changes in accounting policies

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 Fair Value Measurement.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

The nature and the effects of the changes are explained below.

(I) Fair value measurement
In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 3(g)(vi), prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the Financial Statements, as required under IFRS 13. These new disclosure requirements are not considered in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

(II) Presentation of items of Other Comprehensive Income (OCI)
As a result of the amendments to IAS 1, the Bank has modified the presentation of items of OCI in its statement of profit or loss and OCI, in order to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis. This change did not have significant impacts in the OCI of the Bank, because all OCI items are or may be reclassified to profit or loss.

b. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Foreign currency differences arising on translation are generally recognised in profit or loss.

c. Interest

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

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

Interest income and expense presented in the statement of profit or loss and OCI include:

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

d. Fees and commission

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

Other fee and commission income – including account servicing fees, sales commission, placement fees– are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

e. Operating leases

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

f. Income tax

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

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

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

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

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

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

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

g. Financial assets and financial liabilities

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

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

(II) Classification
Financial assets
The Bank classifies its financial assets into one of the following categories:

- loans and receivables; and
- available-for-sale.

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

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

(III) Derecognition
Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transac-

tion in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (I) the consideration received (including any new asset obtained less any new liability assumed) and (II) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

(IV) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRS.

(V) Amortised cost measurement
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(VI) Fair value measurement
Policy applicable from 1 January 2013
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

Policy applicable before 1 January 2013
'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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.

(VII) Identification and measurement of impairment
Impairment of loans and advances
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

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

All loans having an outstanding amount of EUR 30 thousand or more (2012: EUR 30 thousand or more) are assessed individually while loans below this threshold level are considered insignificant and assessed on a collective basis showing indications of loss events. For insignificant impaired loans the following allowance levels were calculated based on the historical experience of the Bank in similar economic environments.

	Allowance Level 2013	Allowance Level 2012
arrears 0-30 days	1.2%	1.1%
arrears 31-90 days	50%	50%
arrears > 91 days	75%	75%
arrears > 180 days	100%	100%

(VII) Identification and measurement of impairment

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

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

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

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

Impairment of available-for-sale financial assets

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

h. Cash and cash equivalents

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

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

(I) Loans and advances

Loans and advances are non-derivative financial assets with fixed

or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances to banks and loans and advances to customers are classified as loans and receivables.

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

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

j. Available-for-sale financial assets

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

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

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

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

k. 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.

The carrying values of property and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the profit or loss.

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

Description	Useful lifetime 2013	Useful lifetime 2012
Buildings	15-40 years	15-40 years
Leasehold improvements	Based on lease term	Based on lease term
Electronic equipment	2-5 years	2-5 years
Furniture and fixtures	2-10 years	2-10 years

The assets' residual values and useful lifetimes are reviewed, and adjusted if appropriate, at each reporting date. Assets which are below 50 EUR are fully depreciated (2012: below 50 EUR).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in profit or loss.

l. Intangible assets

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

m. Deposits and subordinated liabilities

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

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's Financial Statements.

Deposits and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

n. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by

discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

o. Employee benefits

The Bank pays only contributions to the publicly administered pension plan on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. The Bank calculated and established provisions for staff leave untaken by the end of the current year.

p. Financial guarantees and loan commitments

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

q. Share capital

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

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

(III) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the reporting date are disclosed as events after the end of the reporting period.

r. New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these Financial Statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards or amendments early.

(I) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 with respect to financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments for which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement for financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's Financial Statements.

(II) Offsetting financial assets and financial liabilities (amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity has a legally enforceable right to offset and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

4. Critical accounting judgements and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

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

a. Assumptions and estimation uncertainties

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

(I) Impairment charge for credit losses
The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

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

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an additional EUR 269 thousand loss in its 2013 Financial Statements(2012: EUR 224 thousand), being the transfer of the total fair value reserve to the profit and loss. See Note 24.

(III) Recent volatility in global financial markets
The financial crisis affected almost all countries of Europe, but had limited impact in Kosovo, primarily owing to its low degree of integration into global goods and financial markets. The risk for Kosovo is manifested through possible reduction of remittances because of weaker expected growth in Western Europe.

The banks in Kosovo are well capitalised and have favourable loan to deposit ratios. At the same time, measures taken by the Central Bank of the Republic of Kosovo in the form of requirements for commercial banks to maintain prudential policies with a view to safeguard sufficient liquidity and capital buffers in case of external strains are providing the necessary security and stability of the system.

Only a few banks in Kosovo participate directly in the financial markets. ProCredit Bank Kosovo is one of these banks.

Investment policies for ProCredit Bank Kosovo remained conservative, and surplus liquidity is invested only in high quality (more than AA- sovereign or supranational) securities. Therefore, the Bank was not affected by volatilities in the financial markets.

5. Financial risk management

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

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

Risk management is carried out primarily by the risk management department and credit risk department, working under the risk management policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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 management department, while the interbank risk for placements and debt securities are concentrated in the Treasury and Risk Management Departments. All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

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

The table below represents a worst case scenario of credit risk exposure of the Bank at 31 December 2013 and 2012, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

	Balances with the Central Bank		Loans and advances to banks		Loans and advances to customers		Available-for-sale financial assets		Other financial assets		Lending commitments and guarantees	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Maximum exposure to credit risk												
Carrying amount	53,469	97,414	62,218	56,202	440,205	480,907	170,090	105,245	1,608	1,990	-	-
Amount committed/ guaranteed	-	-	-	-	-	-	-	-	-	-	63,593	60,110
	53,469	**97,414**	**62,218**	**56,202**	**440,205**	**480,907**	**170,090**	**105,245**	**1,608**	**1,990**	**63,593**	**60,110**
At amortised cost												
Neither past due nor impaired	**53,469**	**97,414**	**62,218**	**56,202**	**399,038**	**453,291**	**170,090**	**105,245**	**1,608**	**1,990**	**-**	**-**
Past due but not impaired	-	-	-	-	15,688	16,825	-	-	-	-	-	-
Impaired	-	-	-	-	59,643	40,249	-	-	-	-	-	-
Total gross amount	**53,469**	**97,414**	**62,218**	**56,202**	**474,369**	**510,365**	**170,090**	**105,245**	**1,608**	**1,990**	**-**	**-**
Allowance for impairment (individual and collective)	-	-	-	-	(34,164)	(29,458)	-	-	-	-	-	-
Net carrying amount	**53,469**	**97,414**	**62,218**	**56,202**	**440,205**	**480,907**	**170,090**	**105,245**	**1,608**	**1,990**	**-**	**-**
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	-	-	43,505	46,345
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	-	-	19,864	13,160
Letters of Credit: Low - fair risk	-	-	-	-	-	-	-	-	-	-	224	605
Total commitment	-	-	-	-	-	-	-	-	-	-	**63,593**	**60,110**
Provisions recognised as liabilities	-	-	-	-	-	-	-	-	-	-	(303)	(74)
Total exposure	-	-	-	-	-	-	-	-	-	-	**63,290**	**60,036**

			2013			2012
Loans and advances to customers	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Total gross amount	126,423	347,946	474,369	128,738	381,627	510,365
Allowance for impairment (individual and collective)	(3,417)	(30,747)	(34,164)	(2,808)	(26,650)	(29,458)
Net carrying amount	**123,006**	**317,199**	**440,205**	**125,930**	**354,977**	**480,907**
At amortised cost						
Neither past due nor impaired	122,540	276,498	399,038	126,615	326,676	453,291
Past due but not impaired	2,757	12,931	15,688	2,123	14,702	16,825
Impaired	1,126	58,517	59,643	-	40,249	40,249
Total gross amount	**126,423**	**347,946**	**474,369**	**128,738**	**381,627**	**510,365**
Allowance for impairment (individual and collective)	(3,417)	(30,747)	(34,164)	(2,808)	(26,650)	(29,458)
Net carrying amount	**123,006**	**317,199**	**440,205**	**125,930**	**354,977**	**480,907**
Loans with renegotiated terms						
Carrying amount	1,663	48,090	49,753	1,015	37,024	38,039
From which: Impaired	167	38,842	39,009	53	29,462	29,515
Allowance for impairment	(283)	(17,289)	(17,572)	(185)	(16,712)	(16,897)
Net carrying amount	**1,380**	**30,801**	**32,181**	**830**	**20,312**	**21,142**
Past due but not impaired						
Past due 0-30 days	1,510	8,321	9,831	1,079	11,620	12,699
Past due 31 - 90 days	625	2,150	2,775	573	1,511	2,084
Past due 91 – 180 days	622	2,460	3,082	471	1,571	2,042
	2,757	**12,931**	**15,688**	**2,123**	**14,702**	**16,825**
Impaired						
Past due 0 – 30 days	337	35,383	35,720	-	24,452	24,452
Past due 31 - 90 days	59	3,056	3,115	-	1,712	1,712
Past due 91 – 180 days	1	3,700	3,701	-	4,105	4,105
Past due over 180 days	729	16,378	17,107	-	9,980	9,980
	1,126	**58,517**	**59,643**	**-**	**40,249**	**40,249**
Allowance for impairment						
Individual	(316)	(23,487)	(23,803)	(322)	(20,151)	(20,473)
Collective	(3,101)	(7,260)	(10,361)	(2,486)	(6,499)	(8,985)
Total allowance for impairment	**(3,417)**	**(30,747)**	**(34,164)**	**(2,808)**	**(26,650)**	**(29,458)**

Impairment and provisioning

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

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances demand it. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. The collective assessment of the impairment of a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics. The quantitative default rates calculated in this manner were subjected to a qualitative analysis (migration analysis).

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

- specific individual impairment
- portfolio-based provisions
- lump-Sum specific provisions

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

Lump-sum specific provisions: loan loss provisions are determined for individually insignificant credit exposures that are impaired based on the number of days in arrears (more than 30 days in arrears).

The Bank's policy requires the review of individual loans and advances to customers that are above materiality thresholds of EUR 30 thousand (2012: EUR 30 thousand) at least quarterly or more regularly when individual circumstances demand it. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

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

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.

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and the treasury department. 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 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 ensure that the exposure toward all banks does not exceed regulatory limits or internal limits set by the Management of the Bank. Thus, risk management supports the treasury department by providing daily reports that indicate the exposures and placements that can be made to all correspondent banks without violating present exposure limits. In addition, all large placements are subject to approval by the Bank's Asset and Liability Committee (ALCO), in which the Management Board and senior management participate. Only when both treasury and risk management agree to a limit for a bank (two positive votes) should the Management Board approve a line.

In accordance with the new CBK regulation on large exposures, banks shall not have any aggregate credit risk exposure to related counterparties exceeding 15% of Tier I Regulatory Capital. In addition, to further reducing the counterparty risk, the ALCO approved internal limits on counterparty exposures slightly below the regulatory requirements, limits which have been continuously maintained by the Bank.

Loans and advances to banks are granted without collateral. The table below presents the Bank's current accounts and term deposits with correspondent banks, by credit ratings:

At 31 December	2013	2012
AAA	200	82
AA+ to AA-	17,477	5,669
A+ to A-	37,419	49,608
BBB+ to B-	7,122	843
	62,218	**56,202**

Financial assets available-for-sale

Investments in debt securities are with sovereign issuers, central banks and other supranational borrowers rated as AA- or higher by Fitch, S&P or Moody's. Exposure to debt securities is regulated by the Investment Guideline, which is part of Treasury Policy and Procedures.

Investments are allowed only in liquid securities that have high credit ratings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Ratings at 31 December	2013	2012
AAA	142,391	91,017
AA+	19,433	9,802
Not-rated	8,266	4,426
Total	**170,090**	**105,245**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank may be required to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The maximum credit exposure for credit commitments is the full amount of the commitment (see Note 26).

(II) Risk limit control and mitigation policies

The Bank manages limits and controls the 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 a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, if necessary. Limits on the level of credit risk by product, region 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, other credit enhancements and their financial effect

The Bank employs a range of policies and practices to mitigate credit risk, the most common of which is the taking of security for fund advances. 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:

- Mortgages over residential properties
- Charges over business assets such as premises, equipment and inventory
- Charges over cash and cash equivalents (cash collateral)

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 as determined by decision of a credit committee. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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").

	2013		2012	
At 31 December	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Retail				
Overdrafts	2,904	117	2,836	165
Credit cards	808	908	993	84
Consumer loans	7,453	3,103	10,785	2,460
Home improvement	111,841	115,270	111,316	106,450
Corporate				
Business overdrafts	38,447	137,825	44,296	154,874
Business up to EUR 150 thousand	178,838	283,120	192,813	267,212
Business greater than EUR 150 thousand	99,914	202,777	117,868	210,920
	440,205	**743,120**	**480,907**	**742,165**

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

Set out below is an analysis of collateral and credit enhancement obtained during the years indicated:

	Loans and advances to customers			Fair value of collateral		
31 December 2013	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Mortgage	16,911	200,407	217,318	57,816	293,134	350,950
Pledge	81,756	112,558	194,314	61,582	330,588	392,170
Unsecured exposures	**24,339**	**4,234**	**28,573**	-	-	-
Total	123,006	317,199	440,205	119,398	623,722	743,120

	Loans and advances to customers			Fair value of collateral		
31 December 2012	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Mortgage	15,016	218,619	233,635	54,300	292,435	346,735
Pledge	79,921	132,217	212,138	54,859	340,571	395,430
Unsecured exposures	**30,993**	**4,141**	**35,134**	-	-	-
Total	125,930	354,977	480,907	109,159	633,006	742,165

(III) Concentration of credit risk

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

1) Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as of 31 December 2013 and 2012. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2013			2012		
	OECD countries	Kosovo	Total	OECD countries	Kosovo	Total
Balances with the Central Bank	-	53,469	53,469	-	97,414	97,414
Loans and advances to banks	62,218	-	62,218	56,202	-	56,202
Loans and advances to customers	-	440,205	440,205	-	480,907	480,907
Available-for-sale financial assets	161,844	8,246	170,090	100,838	4,407	105,245
Other financial assets	-	1,608	1,608	-	1,990	1,990
	224,062	**503,528**	**727,590**	**157,040**	**584,718**	**741,758**

2) Industry

	2013			2012		
	Retail	Corporate	Total	Retail	Corporate	Total
Balances with the Central Bank	-	53,469	53,469	-	97,414	97,414
Loans and advances to banks	-	62,218	62,218	-	56,202	56,202
Loans and advances to customers	123,006	317,199	440,205	125,930	354,977	480,907
Available-for-sale financial assets	-	170,090	170,090	-	105,245	105,245
Other financial assets	-	1,608	1,608	-	1,990	1,990
	123,006	**604,584**	**727,590**	**125,930**	**615,828**	**741,758**

The 'Corporate' segment includes banks and financial institutions.

b. Market risk

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

(I) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank aims not to profit from any speculative transaction, it tries to keep its open foreign currency position close to zero at all times. Open currency position limits and risk-bearing capacity for the Bank are set by their respective policies, which are approved by the Board of Directors, and reviewed daily by the risk management department. In addition regulatory limits are at all times adhered to by the Bank.

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in EUR):

At 31 December	31 December 2013	31 December 2012
1 USD	0.7251	0.7579
1 CHF	0.8146	0.8283
1 GBP	1.1995	1.2253

The following table summarises the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2013 and 2012, as translated into EUR '000.

31 December 2013	EUR	USD	CHF	GBP	Total
Assets					
Cash and balances with the Central Bank	87,335	1,276	7,517	522	96,650
Loans and advances to banks	47,402	14,527	233	56	62,218
Loans and advances to customers	438,008	2,197	-	-	440,205
Available-for-sale financial assets	151,721	18,369	-	-	170,090
Other financial assets	1,155	453	-	-	1,608
Total	**725,621**	**36,822**	**7,750**	**578**	**770,771**
Liabilities					
Due to banks	449	-	1	-	450
Due to customers	620,062	37,178	7,751	584	665,575
Subordinated liabilities	25,013	-	-	-	25,013
Other financial liabilities	1,758	-	-	-	1,758
Total	**647,282**	**37,178**	**7,752**	**584**	**692,796**
Net on-balance sheet financial position	**78,339**	**(356)**	**(2)**	**(6)**	**77,975**
Credit commitments	43,415	90	-	-	43,505
Off-balance sheet – letters of credit	224	-	-	-	224
Off-balance sheet – bank guarantees	19,583	281	-	-	19,864
Total credit-related commitments	**63,222**	**371**	**-**	**-**	**63,593**

31 December 2012	EUR	USD	CHF	GBP	Total
Assets					
Cash and balances with the Central Bank	132,662	1,566	3,965	482	138,675
Loans and advances to banks	43,146	8,808	4,244	4	56,202
Loans and advances to customers	477,814	3,093	-	-	480,907
Available-for-sale financial assets	85,908	19,337	-	-	105,245
Other financial assets	1,610	379	1	-	1,990
Total	**741,140**	**33,183**	**8,210**	**486**	**783,019**
Liabilities					
Due to banks	316	547	656	-	1,519
Due to customers	633,288	32,782	7,445	472	673,987
Subordinated liabilities	25,005	-	-	-	25,005
Other financial liabilities	1,997	-	-	-	1,997
Total	**660,606**	**33,329**	**8,101**	**472**	**702,508**
Net on-balance sheet financial position	**80,534**	**(146)**	**109**	**14**	**80,511**
Credit commitments	46,201	144	-	-	46,345
Off-balance sheet – letters of credit	598	7	-	-	605
Off-balance sheet – bank guarantees	12,973	187	-	-	13,160
Total credit-related commitments	**59,772**	**338**	**-**	**-**	**60,110**

The table below summarises the sensitivity analysis for foreign currency risk and the effect on the profit or loss:

			Effect on profit or loss	
	Increase 2013	**Increase 2012**	**31 December 2013**	**31 December 2012**
USD	15%	20%	(63)	157
Other	15%	20%	(1)	127

(II) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position and cash flows. In contrast to other commercial banks, ProCredit banks do not aim to earn profits through maturity transformation or other forms of speculation in the interest rate market. Rather, the Bank seeks to ensure that the structure of assets and liabilities is balanced across all maturities.

The Bank's interest rate risk management is in accordance with Basel II, taking into consideration as interest rate sensitive only the principal (nominal value); accrued and fair value changes are considered as non-interest rate sensitive.

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

EUR interest Sensitivity Gap At 31 December 2013		**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**Not interest sensitive**
Assets										
Cash on hand		-	-	-	-	-	-	-	**-**	**41,904**
Balances with the Central Bank		310	-	-	-	-	-	-	**310**	**53,159**
Current accounts with banks		32,498							**32,498**	**1,293**
T-bills and marketable securities	Fixed	19,340	11,200	4,010	93,740	19,000	-	-	**147,290**	**4,431**
Term deposits with banks		**9,900**	4,000	-	-	-	-	-	**13,900**	**1**
Loans and advances to customers	Fixed	20,438	39,231	57,156	97,963	105,552	110,226	12,422	**442,988**	**(9,556)**
	Variable	4,429	-	-	-	-	-	-	**4,429**	**-**
Other assets		-	-	-	-	-	-	-	**-**	**21,154**
Total assets		**86,915**	**54,431**	**61,166**	**191,703**	**124,552**	**110,226**	**12,422**	**641,415**	**112,386**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	**-**	**450**
Current accounts from customers		28,813	5,750	8,626	17,301	34,503	48,879	-	**143,872**	**212,435**
Deposits from customers		26,449	35,626	49,706	107,384	21,629	20,718	1,461	**262,973**	**9,117**
Subordinated debt	Fixed	-	-	-	7,500	-	-	-	**7,500**	**-**
	Variable	-	17,046	-	-	-	-	-	**17,046**	**467**
Other liabilities and equity										**99,941**
Total liabilities and equity		**55,262**	**58,422**	**58,332**	**132,185**	**56,132**	**69,597**	**1,461**	**431,391**	**322,410**
IR sensitivity gap – open position		**31,653**	**(3,991)**	**2,834**	**59,518**	**68,420**	**40,629**	**10,961**	**210,024**	**(210,024)**

EUR interest Sensitivity Gap At 31 December 2012		Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets										
Cash on hand		-	-	-	-	-	-	-	-	39,695
Balances with the Central Bank		2606	-	-	-	-	-	-	2,606	94,808
Current accounts with banks		35413	-	-	-	-	-	-	35,413	2,079
T-bills and marketable securities	Fixed	8463	25,470	-	40,000	10,000	-	-	83,933	1,974
Term deposits with banks		9,900	-	-	-	-	-	-	9,900	2
Loans and advances to customers	Fixed	27,156	38,870	55,144	94,948	115,899	117,336	12,226	461,579	(18,683)
	Variable	343	597	13,846	2,191	4,847	9,355	3,744	34,923	-
Other assets			-	-	-	-	-	-	-	23,255
Total assets		83,881	64,937	68,990	137,139	130,746	126,691	15,970	628,354	143,130
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	-	972
Current accounts from customers		27,219	5,532	8,148	16,295	32,590	46,170	-	135,954	192,373
Deposits from customers		36,512	48,690	49,767	107,937	33,598	23,347	1,856	301,707	11,171
Subordinated debt	Fixed	-	-	-	-	7,500	-	-	7,500	-
	Variable	-	17,045	-	-	-	-	-	17,045	460
Other liabilities and equity		-	-	-	-	-	-	-	-	104,302
Total liabilities and equity		63,731	71,267	57,915	124,232	73,688	69,517	1,856	462,206	309,278
IR sensitivity gap – open position		20,150	(6,330)	11,075	12,907	57,058	57,174	14,114	166,148	(166,148)

USD interest Sensitivity Gap At 31 December 2013		Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 Years	2-5 Years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	-	1,277
Current accounts with banks		7,141	-	-	-	-	-	7,141	134
T-bills and marketable securities	Fixed	-	10,877	-	7,251	-	-	18,128	241
Term deposits with banks		7,251	-	-	-	-	-	7,251	-
Loans and advances to customers	Fixed	21	1,230	562	258	130	-	2,201	143
Other assets		-	-	-	-	-	-	-	794
Total assets		14,413	12,107	562	7,509	130	-	34,721	2,589
Current accounts from customers		3,055	611	916	1,833	3,666	5,194	15,275	16,939
Deposits from customers		596	951	1,879	1,501	-	-	4,927	37
Other liabilities		-	-	-	-	-	-	-	132
Total liabilities		3,651	1,562	2,795	3,334	3,666	5,194	20,202	17,108
IR sensitivity gap- open position		10,762	10,545	(2,233)	4,175	(3,536)	(5,194)	14,519	(14,519)

USD interest Sensitivity Gap At 31 December 2012		Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 Years	2-5 Years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	-	1,566
Current accounts with banks		6,534			-	-	-	6,534	-
T-bills and marketable securities	Fixed	-	13,074	2,274	3,790	-	-	19,138	200
Term deposits with banks		-	2,274	-	-	-	-	2,274	-
Loans and advances to customers	Fixed	244	1,756	485	126	364	136	3,111	(23)
Other assets		-	-	-	-	-	-	-	477
Total assets		6,778	17,104	2,759	3,916	364	136	31,057	2,220
Current accounts from banks		-	-	-	-	-	-	-	547
Current accounts from customers		2,742	548	823	1,645	3,291	4,662	13,711	12,589
Deposits from customers		1,094	1,762	1,650	1,935	-	-	6,441	41
Other liabilities		-	-	-	-	-	-	-	(52)
Total liabilities and equity		3,836	2,310	2,473	3,580	3,291	4,662	20,152	13,125
IR sensitivity gap- open position		2,942	14,794	286	336	(2,927)	(4,526)	10,905	(10,905)

The analysis and calculations are performed to quantify the effect of interest rate movements on the 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 2013 and 2012, and assuming a parallel shift of interest rate of +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, with negative figures representing losses:

Increase on interest rates of 2%	Interest earning decline over the next 3 months		Interest earning decline over the next 1 year		Economic Value impact	
Assets and Liabilities in:	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
EUR	130	79	825	510	(5,997)	(6,850)
USD	**63**	**37**	**375**	**309**	**246**	**228**

c. 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 liquid assets with caution, maintaining a balance of cash and cash equivalents sufficiently enough to meet immediate liability calls.

The table below presents the liquidity analysis by remaining contractual maturities at the reporting date as well as by expected maturities of the financial data. The amounts disclosed in the first part of the table are contractual discounted cash flows, whereas the Bank manages the inherent liquidity risk on an expected basis, based on expected undiscounted cash inflows and outflows reported on the second part. In transforming the liabilities from contractual to expected, the Bank considers two sets of assumptions: (1) assumptions which are recommended by ProCredit Holding and which are based on German Liquidity Regulation, (2) assumptions are derived from historical analysis of customer deposits and their withdrawal patterns.

The Bank aims at all times to keep the expected cumulative maturity gap positive. Should the expected cumulative maturity gap not be positive, the Bank considers the liquidity as a “watch liquidity position”.

The figures reported on the reporting tool below do not match with the statement of financial position figures, which is due to the fact that apart from on-balance positions the Bank has taken into consideration the off-balance sheet positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank Guarantees and Letters of Credit and other credit-related commitments) become due and

assets can be used as repayment source (including the off-balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).
In the liquidity gap table presented below the following definitions are considered relevant:

- Assets 1 - are assets which do not have a contractual maturity and/or can be converted into cash very quickly,
- Assets 1-S – are assets that have a contractual maturity and the distribution into the time buckets is based on the remain ing maturities,
- Liabilities 1 – are liabilities which contractually are due on de mand,
- Liabilities 1-S – are liabilities that have a contractual maturity and the distribution into the time buckets is based on the re maining maturities.

At 31 December 2012	Up to 1 month	1-3 months	3-6 months	6-12 months	> 1 years	Total
Assets 1						
Cash on hand	43,181	-	-	-	-	43,181
Reserves with the Central Bank	39,254	-	-	-	-	39,254
Current accounts with the Central Bank	14,215	-	-	-	-	14,215
Current accounts with banks	41,066	-	-	-	-	41,066
Unused credit commitments	15,000	-	-	-	-	15,000
T-bills and marketable securities	19,351	22,120	3,983	103,263	19,494	168,211
Assets 1-S						
Term deposits with banks	17,152	4,000	-	-	-	21,152
Loans and advances to customers	27,708	40,813	58,246	99,413	245,028	471,208
Total Assets	**216,927**	**66,933**	**62,229**	**202,676**	**264,522**	**813,287**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	450	-	-	-	-	450
Due to customers (due daily)	385,415	-	-	-	-	385,415
Contingent liabilities from guarantees	20,088	-	-	-	-	20,088
Unused credit commitments	43,505	-	-	-	-	43,505
Liabilities 1-S						
Due to customers	27,045	36,577	52,822	108,885	43,024	268,353
Subordinated debt	-	-	-	-	24,545	24,545
Total Contractual Liabilities	**476,503**	**36,577**	**52,822**	**108,885**	**67,569**	**742,356**
Periodic Contractual Liquidity Gap	**(259,576)**	**30,356**	**9,407**	**93,791**	**196,953**	**70,931**
Cumulative Contractual Liquidity Gap	**(259,576)**	**(229,220)**	**(219,813)**	**(126,022)**	**70,931**	
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	225	225	-	-	-	450
Due to customers (due daily)	77,465	15,395	23,092	46,235	223,228	385,415
Contingent liabilities from guarantees	1,004	-	-	-	-	1,004
Unused credit commitments	8,701	-	-	-	-	8,701
Liabilities 1-S						
Due to customers	27,045	36,577	52,822	108,885	43,024	268,353
Subordinated debt	-	-	-	-	24,545	24,545
Total Expected Liabilities	**114,440**	**52,197**	**75,914**	**155,120**	**290,797**	**688,468**
Periodic Expected Liquidity Gap	**102,487**	**14,736**	**(13,685)**	**47,556**	**(26,275)**	**124,819**
Cumulative Expected Liquidity Gap	**102,487**	**117,223**	**103,538**	**151,094**	**124,819**	

At 31 December 2012	Up to 1 month	1-3 months	3-6 months	6-12 months	> 1 years	Total
Assets 1						
Cash on hand	41,261	-	-	-	-	41,261
Reserves with the Central Bank	39,520	-	-	-	-	39,520
Current accounts with the Central Bank	55,289	-	-	-	-	55,289
Current accounts with banks	678	-	-	-	-	678
Unused credit commitments	15,000	-	-	-	-	15,000
T-bills and marketable securities	11,138	37,083	2,301	44,511	10,212	105,245
Assets 1-S						
Term deposits with banks	55,524	-	-	-	-	55,524
Loans and advances to customers	28,226	42,776	60,992	100,433	277,412	509,839
Total Assets	**246,636**	**79,859**	**63,293**	**144,944**	**287,624**	**822,356**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	1,519	-	-	-	-	1,519
Due to customers (due daily)	352,502	-	-	-	-	352,502
Contingent liabilities from guarantees	13,765	-	-	-	-	13,765
Unused credit commitments	46,345	-	-	-	-	46,345
Liabilities 1-S						
Due to customers	37,605	50,451	53,272	109,872	56,947	308,147
Subordinated debt	-	-	-	-	24,545	24,545
Total Contractual Liabilities	**451,736**	**50,451**	**53,272**	**109,872**	**81,492**	**746,823**
Periodic Contractual Liquidity Gap	**(205,100)**	**29,408**	**10,021**	**35,072**	**206,132**	**75,533**
Cumulative Contractual Liquidity Gap	**(205,100)**	**(175,692)**	**(165,671)**	**(130,599)**	**75,533**	
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	759	760	-	-	-	1,519
Due to customers (due daily)	70,774	14,086	21,130	42,259	204,253	352,502
Contingent liabilities from guarantees	792	-	-	-	-	792
Unused credit commitments	9,269	-	-	-	-	9,269
Liabilities 1-S						
Due to customers	37,605	50,451	53,272	109,872	56,947	308,147
Subordinated debt	-	-	-	-	24,545	24,545
Total Expected Liabilities	**119,199**	**65,297**	**74,402**	**152,131**	**285,745**	**696,774**
Periodic Expected Liquidity Gap	**127,437**	**14,562**	**(11,109)**	**(7,187)**	**1,879**	**125,582**
Cumulative Expected Liquidity Gap	**127,437**	**141,999**	**130,890**	**123,703**	**125,582**	

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

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 flow. The Management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2013, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in Bank's Risk Management Committee and ALCO. The stress test is performed applying three different scenarios as per Liquidity Risk Management Policy, starting from less to more conservative scenarios. In case the Management Board and risk management department sees any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

d. Capital management

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of Kosovo (CBK); (ii) 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 (iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a quarterly basis.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and off-balance sheet exposure, with some adjustments to reflect the contingent nature of certain potential losses.

The CBK requires the Bank to hold a minimum level of regulatory capital of EUR 7,000,000, to maintain a ratio of Tier I capital to risk-weighted assets (the 'Basel ratio') at or above the minimum of 8%, and to maintain total regulatory capital, Tier II, to risk-weighted assets at or above the minimum 12%.

As at 31 December 2013 and 2012 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2013	2012
Tier 1 capital		
Share capital and share premium	60,550	55,550
Reserves	511	511
Retained earnings	21,161	31,060
less: Intangible assets	(1,129)	(1,142)
less: Loans to bank-related persons	(7,135)	(1,856)
less: Deferred tax assets	(30)	-
Total qualifying Tier 1 capital	**73,928**	**84,123**
Tier 2 capital		
Subordinated liability	24,545	24,545
Provisions for loan losses (limited to 1.25% of RWA)	5,912	6,560
Total qualifying Tier 2 capital	**30,457**	**31,105**
Total regulatory capital	**104,385**	**115,228**
Risk-weighted assets:		
On-balance sheet	455,270	513,016
Off-balance sheet	17,709	11,746
Risk assets for operational risk	65,514	64,682
Total risk-weighted assets	**538,493**	**589,444**
Tier I capital adequacy ratio	**13.73%**	**14.27%**
Tier II capital adequacy ratio	**19.38%**	**19.55%**

Starting from 2009, the Bank calculates and monitors capital adequacy in accordance with Basel II. Therefore, the Bank sets aside capital for credit risk, and for market and operational risk also. As at 31 December 2013 and 2012 the Bank's capital adequacy ratios measured in accordance with Basel II were:

- Tier I capital adequacy ratio: 14.31% (2012: 13.12%)
- Total capital ratio: 19.74% (2012: 18.04%).

e. 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 risk bearing capacity of the Bank is defined as the Bank's equity (net of intangibles) plus subordinated debt, which amounted to EUR 119.6 million as of December 2013 (2012: EUR 123.6 million). The Resources Available to Cover Risk (RAtCR, the "Risikodeckungsmasse" referred to in the MaRisk standards established for German banks) were set at 60% of the risk-taking potential, i.e. EUR 71.78 million.

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

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 95% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock for EUR/USD (2 percentage points, Basel interest rate shock) and higher (historical) shock levels for other currencies.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The Bank showed a modest level of utilization of its RAtCR as of 31 December 2013. Counterparty and market risk limit utilization are again low, reflecting the risk-averse management approach which guides the Bank's treasury operations.

The economic capital required to cover operational risk is calculated according to the Basel II standard approach. Data collected during 2013 in the Risk Event Database (RED), which captures risk event data on a bank- and group-wide scale, indicates a low level of operational risk. All risks combined, as quantified by the methods established by the Bank's policies, are below the limit of 60% of the Bank's total risk bearing capacity.

6. Fair values of financial instruments

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

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

a. Valuation models

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 and are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all

instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

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 categorised. These values are recognised in the statement of financial position.

Available-for-sale financial assets	Total fair value	Level 1	Level 2	Level 3
31 December 2013	170,070	170,070	-	-
31 December 2012	**105,227**	**105,227**	**-**	**-**

	Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
	2013	**2013**	**2012**	**2012**
Financial Assets				
Cash and balances with the Central Bank	96,650	96,650	138,675	138,675
Loans and advances to banks	62,218	62,218	56,202	57,219
Loans and advances to customers	440,205	420,992	480,907	470,447
Other financial assets	1,608	1,608	1,990	1,990
Financial Liabilities				
Due to banks	450	450	1,519	1,519
Customer deposits	665,575	659,429	673,987	664,704
Subordinated liabilities	25,013	25,013	25,005	25,005
Other financial liabilities	1,758	1,758	1,997	1,997

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. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. To improve the accuracy of the valuation estimate for retail and smaller business 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.

	2013	2012
Interest income		
Loans and advances to customers	68,111	73,271
Loans and advances to banks	155	153
Available-for-sale financial assets	98	248
Other	30	63
Total interest income	**68,394**	**73,735**
Interest expense		
Due to customers	13,332	14,437
Borrowed funds	1,988	2,118
Other	153	153
Total interest expense	**15,473**	**16,708**
Net interest income	**52,921**	**57,027**

Included within interest income from loans and advances to customers for the year ended 31 December 2013 is a total of EUR 1,597 thousand (2012: EUR 335 thousand) relating to impaired financial assets and unwinding of the discount on the impairment for loans of EUR 2,537 thousand (2012: EUR 1,968 thousand).

8. Net fee and commission income

	2013	2012
Fee and commission income		
Payment transfers and transactions	3,964	3,832
Letters of credit and guarantees	540	426
Account maintenance fees	1,387	1,391
Debit and credit cards	3,103	3,175
Other fees and commissions	944	902
Total fee and commission income	**9,938**	**9,726**
Fee and commission expense		
IT provider and related services	1,106	1,058
Fees and commissions on bank accounts	294	281
Other fees to banks	522	541
Fees and expenses related to cards	542	472
Other fees and commissions	836	735
Total fee and commission expense	**3,300**	**3,087**
Net fee and commission income	**6,638**	**6,639**

9. Administrative and other operating expenses

	2013	2012
Personnel expenses (see below)	**11,624**	**12,640**
Depreciation and amortisation (see notes 15 and 16)	3,455	3,372
Rental expenses	2,497	2,459
Maintenance and repairs	1,244	918
Advertising and promotion costs	1,210	1,891
Consulting and legal fees	1,052	560
Security services	**997**	**1,110**
Expenses paid to ProCredit Holding	876	884
Utilities	832	824
Training costs	763	834
Deposit insurance fund	704	847
Communication (telephone, on-line connection)	747	774
Transport (fuel, maintenance)	391	446
Office supplies	507	551
Royalties on software	263	140
Provision for guarantees given	257	1,073
Disposals of property, plant and equipment	254	12
Litigation settlements	69	110
Insurance	56	73
Stipends	48	63
Other expenses	762	857
	28,608	**30,438**

At 31 December 2013 the Bank had 869 employees (2012: 1,100 employees).

	2013	2012
Wages and salaries	10,290	11,528
Pension contribution	548	595
Fringe benefits	437	506
Other compensations	349	11
	11,624	**12,640**

10. Income taxes

a. Amounts recognised in profit or loss

	2013	2012
Current tax expenses	1,698	1,789
Deferred tax (income)/expense	(157)	334
Total income tax expense	**1,541**	**2,123**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates valid at the reporting date. The tax rate on corporate income is 10% (2012: 10%).

b. Amounts recognised in Other Comprehensive Income (OCI)

		2013			2012	
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Available-for-sale investments	(50)	5	(45)	1,151	(114)	1,037
Total (see Note 24)	(50)	5	(45)	1,151	(114)	1,037

c. Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2012: 10%) to current income tax expense:

	Tax rate	2013	Tax rate	2012
Profit before tax		**17,619**		**20,637**
Tax using the corporation tax rate	10.0%	1,762	10.0%	**2,064**
Non-deductible expenses	0.1%	25	0.5%	**101**
Additional provision for loans based on Central Bank of Kosovo rules	(0.5%)	(89)	(1.8%)	(376)
	9.5%	**1,698**	**8.7%**	**1,789**

Prepaid income tax at 31 December 2013 was EUR 1,125 thousand (2012: EUR 895 thousand).

d. Movement in deferred tax balances

Deferred tax is calculated based on the valid tax rate of 10% (2012: 10%).

	2013	Movements in profit or loss	Movements in OCI	2012
Deferred tax assets				
Available-for-sale investments	30	-	5	25
Accrued interest	405	(28)	-	433
	435	**(28)**	**5**	**458**
Deferred tax liabilities				
Depreciation for property and equipment	(66)	75	-	(141)
Provisions for loan impairment	(1,253)	111	-	(1,364)
	(1,319)	**186**	**-**	**(1,505)**
Net deferred tax liabilities	**(884)**	**158**	**5**	**(1,047)**

11. Cash and balances with the Central Bank

	2013	2012
Cash on hand	43,181	41,261
Amounts held at the CBK		
Current account	13,905	55,289
Statutory reserves	39,254	39,520
Kosovo Government Securities (up to 3 months)	310	2,605
	96,650	**138,675**

In accordance with the CBK's requirement relating to the deposits reserve for liquidity purposes, the Bank should maintain a minimum of 10% of customer deposits with maturities up to one year as statutory reserves. The statutory reserves represent highly liquid instruments, including cash on hand, accounts at the CBK or at other banks in Kosovo, and the amounts held at the CBK should not be less than half of the total statutory reserves.

Cash and cash equivalents as at 31 December 2013 and 2012 are presented as follows:

	2013	2012
Cash and balances with the Central Bank	96,650	138,675
Statutory reserves	(39,254)	(39,520)
Loans and advances to banks with maturities of three months or less (Note 12)	62,218	56,202
	119,614	**155,357**

12. Loans and advances to banks

	2013	2012
Current accounts	41,066	44,026
Term deposits with banks	21,152	12,176
	62,218	**56,202**

The annual interest rates on term deposits with banks at the end of the reporting period were as follows:

- Deposits in EUR: from 0.20% to 0.17% p.a. (2012: from 0.46 % to 0.2% p.a.) and
- Deposits in USD: from 0.20% to 0.10% p.a. (2012: from 0.805% to 0.2% p.a.).

13. Loans and advances to customers

	2013	2012
Loans to customers	427,317	459,909
Overdrafts	42,945	48,810
Credit cards	**946**	**1,120**
Deferred disbursement fees	**(2,322)**	**(3,431)**
Accrued interest	**5,483**	**3,957**
	474,369	**510,365**
Impairment allowance	**(34,164)**	**(29,458)**
	440,205	**480,907**

			2013			2012
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Retail customers:						
Overdrafts	3,095	(191)	2,904	3,000	(164)	2,836
Credit cards	950	(142)	808	1,120	(127)	993
Consumer loans	7,714	(261)	7,453	11,023	(239)	10,784
Home improvement	114,664	(2,823)	111,841	113,595	(2,278)	111,317
Corporate customers:						
Overdrafts	40,102	(1,655)	38,447	45,910	(1,614)	44,296
Up to EUR 150 thousand	194,727	(15,889)	178,838	204,605	(11,792)	192,813
Above EUR 150 thousand	113,117	(13,203)	99,914	131,112	(13,244)	117,868
	474,369	**(34,164)**	**440,205**	**510,365**	**(29,458)**	**480,907**

The movement in the provisions for loans at 31 December 2013 was as follows:

	2013	2012
At 1 January	29,458	27,048
Charge for the year	15,640	13,320
Unwinding of discount	**(2,537)**	**(1,968)**
Loans written-off	**(8,397)**	**(8,942)**
At 31 December	**34,164**	**29,458**

At 31 December 2013, the loan portfolio includes loans to employees of the Bank of EUR 4,254 thousand (31 December 2012: EUR 5,755 thousand). These loans are monitored by the Central Bank of Kosovo (CBK), which places a maximum allowed limit for such loans in relation to the regulatory capital of the Bank.

14. Available-for-sale financial assets

	2013	2012
Shares in companies situated in OECD countries	20	**18**
Debt securities	**168,211**	**104,113**
Accrued interest	**1,859**	**1,114**
Total	**170,090**	**105,245**

15. Intangible assets

Cost	Software
At January 2012	3,528
Additions	991
At 31 December 2012	**4,519**
Additions	649
At 31 December 2013	**5,168**
Accumulated amortisation	
At January 2012	**2,841**
Charge for the year	536
At 31 December 2012	**3,377**
Charge for the year	662
At 31 December 2013	**4,039**
Net carrying amount	
At 31 December 2012	**1,142**
At 31 December 2013	**1,129**

16. Property and equipment

At 31 December 2012	Land	Buildings	Assets under construction	Furniture and fixtures	Electronic equipment	Leasehold improvements	Total
Cost							
At January 2012	4,692	6,539	337	1,701	15,849	4,165	33,283
Additions	-	-	1,176	206	4,096	415	5,893
Disposals	-	-	(398)	(94)	(2,215)	(197)	(2,904)
At 31 December 2012	**4,692**	**6,539**	**1,115**	**1,813**	**17,730**	**4,383**	**36,272**
Additions	215	95	311	86	2,880	322	3,909
Disposals	-	-	(410)	(325)	(2,586)	(529)	(3,850)
At 31 December 2013	**4,907**	**6,634**	**1,016**	**1,574**	**18,024**	4,176	36,331
Accumulated depreciation							
At January 2012	-	1,233	-	1,399	11,098	2,433	16,163
Charge for the year	-	335	-	207	1,926	368	2,836
Disposals	-	-	-	(94)	(716)	(188)	(998)
At 31 December 2012	**-**	**1,568**	**-**	**1,512**	**12,308**	**2,613**	**18,001**
Charge for the year	-	340	-	185	1,934	334	2,793
Disposals	-	-	-	(325)	(860)	(286)	(1,471)
At 31 December 2013	**-**	**1,908**	**-**	**1,372**	**13,382**	**2,661**	**19,323**
Net carrying value							
At 31 December 2012	**4,692**	**4,971**	**1,115**	**301**	**5,422**	**1,770**	**18,271**
At 31 December 2013	**4,907**	**4,726**	**1,016**	**202**	**4,642**	**1,515**	**17,008**

17. Other financial assets

	2013	**2012**
Accrued account maintenance fee	155	10
Security deposits	453	375
Receivables from financial institutions	985	1,589
Other financial assets	15	16
	1,608	**1,990**

Other financial assets are neither past due nor impaired and are classified in the standard category as defined by the Bank credit rating.

18. Other assets

	2013	**2012**
Prepaid expenses	432	626
Advances paid for fixed assets	-	35
Other assets	646	773
	1,078	1,434

19. Due to banks

	2013	**2012**
Current accounts	450	1,519
	450	**1,519**

20. Due to customers

	2013	2012
Current accounts	233,958	209,189
Saving accounts	**155,201**	**143,313**
Term deposits	**264,609**	**308,147**
Other customer accounts	**1,341**	**3,032**
Interest accrued	**10,466**	**10,306**
	665,575	**673,987**

Included in customer deposits (Current, Saving and Term deposits) is an amount of EUR 8,294 thousand (2012: EUR 27,541 thousand) representing blocked deposits provided as collateral for loans, guarantees, letters of credit and payment orders on behalf of customers.

The annual interest rates applied at 31 December 2013 and 2012 were as follows:

	2013	2012
Saving accounts	1.50%	1.70%
Term deposits :		
Six months	1.20%-1.50%	1.75%-2.90%
One year	1.50%-2.80%	2.40%-4.00%
Two years	1.60%-3.10%	2.70%-4.45%
Three years	1.70%-3.20%	2.90%-4.60%
Four years	1.80%-3.40%	3.20%-5.00%
Five years	2.00%-4.00%	3.60%-5.60%

Current accounts generally do not bear interest.

21. Subordinated liabilities

	2013	2012
Subordinated debt	17,045	17,045
Subordinated promissory notes	7,500	7,500
Deferred front-end-fees	(59)	(70)
Interest accrued	527	530
	25,013	**25,005**

Subordinated debt represents facilities with a total amount of EUR 17,045 thousand (2012: EUR 17,045 thousand) that were obtained from the European Fund for Southeast Europe ('EFSE'), under subordinated term loan agreements signed in June 2009, with the purpose of providing funding for the Bank's lending activities. The borrowings have variable interest rates of six-month Euribor plus 6.25%, for the first five years of the agreement and maturities of ten years.

Subordinated promissory notes were signed in September 2009 and represent:

- A subordinated promissory note with ResponsAbility SICAV Luxemburg of EUR 2,250 thousand (2012: EUR 2,250 thousand)
- A subordinated promissory note with Credit Suisse Microfinance Fund Management Company, on behalf of ResponsAbility SICAV Luxemburg, of EUR 5,250 thousand (2012: EUR 5,250 thousand)

The subordinated promissory notes have fixed interest rates of 10.01% for the first five years and variable interest rate from year six onwards and maturities of ten years.

Pursuant to the approval granted by the Central Bank of Kosovo, the subordinated debt and promissory notes were classified as second-tier capital and included in the regulatory capital of the Bank.

22. Other financial liabilities

	2013	2012
Accrued expenses	212	717
Suppliers payable	707	637
Due to related parties	240	294
Pension contribution payable to Kosovo Pension Fund	120	140
Other provisions	479	209
	1,758	1,997

23. Other liabilities

	2013	2012
Provision for untaken vacation	277	211
Provision for litigation cases	160	257
Provision for guarantees	303	74
Other	441	447
Other provisions	**1,181**	**989**

24. Shareholder equity and reserves

Share capital

At 31 December 2013 the authorised share capital comprised 11,269,242 ordinary shares (2012: 10,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

			2013			2012
	Number of shares	EUR	%	Number of shares	EUR	%
ProCredit Holding	11,269,242	56,346,210	100	10,269,242	51,346,210	100
	11,269,242	56,346,210	100	10,269,242	51,346,210	100

All issued shares are fully paid. There are no restrictions, conditions or preferences attached to the ordinary shares.

Share premium

Share premium of EUR 4,204 thousand (2012: EUR 4,204 thousand) represents the excess of contributions received over the nominal value of shares issued.

Contingency Reserve

The contingency reserve of EUR 511 thousand was created in 2000, through the appropriation of retained earnings. The reserve represents a provision against political risk and cannot be distributed as dividend without prior approval from CBK.

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 as follows:

	2013	2012
Balance at 1 January	(224)	(1,261)
Revaluation loss reserve for AFS investments	(501)	-
Revaluation gain reserve for AFS investments	451	1,151
Deferred taxes on Fair value reserve	5	(114)
Balance at 31 December	**(269)**	**(224)**

Dividends paid

Dividends of EUR 25 million were approved in June 2013 (2012: EUR 20 million).

25. Related party transactions

The Parent of the Bank is ProCredit Holding AG & Co. KGaA (the 'Parent'), a holding company based in Frankfurt am Main, Germany. ProCredit Holding is the majority shareholder of 22 banks including ProCredit Bank Kosovo and of the ProCredit Academies in Germany, Macedonia and Colombia that provide training and professional development to the staff of the ProCredit group.

The major shareholders of ProCredit Holding AG & Co. KGaA and their participations in share capital include the following:

- IPC – Internationale Projekt Consult GmbH: 17.72%;
- KfW Development Bank: 13.62%;
- DOEN Foundation: 13.32%; and
- International Finance Corporation (IFC): 10.3%.

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholder and affiliated entities at 31 December 2013 and 2012 are as follows:

	2013	2012
Assets receivable from:		
Loans and advances to other ProCredit banks	6,945	678
Financial assets from other ProCredit banks	64	79
Financial assets from Quipu GmbH	70	5
Loan to ProCredit regional academy	-	1,002
Other financial assets	162	152
Liabilities due to:		
Other ProCredit banks	240	79
Financial liabilities to other ProCredit banks	240	196
ProCredit Holding AG & Co. KGaA	122	122
Quipu GmbH	301	298
Financial liabilities to Quipu GmbH	-	91
Financial liabilities to ProCredit Academies	-	6

At 31 December 2013, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2012: EUR 15,000 thousand), maturing on 11 March 2014 for purposes of meeting general financing needs.

	2013	2012
Interest income from:		
ProCredit Academies	5	77
Quipu GmbH	-	3
Interest income from ProCredit banks	5	-
Other income from the ProCredit group	11	-
Expenses:		
The Parent: Other administrative expenses	779	841
The Parent and Academies: Training expenses	498	499
The Parent: Commitment fees	151	147
The Parent: IT services	5	-
Quipu GmbH: IT services	309	223
Quipu GmbH: Card processing fees	1,109	1,077

During the year ended 31 December 2013, the Bank entered into a contract with IPC Internationale Projekt Consult GmbH for consultancy services in green lending for private individuals and the introduction of green loans for business clients. Expenses incurred and paid during the year 2013 amount to EUR 219 thousand, including taxes. There were no such expenses in 2012.

	2013	2012
Key management remuneration:		
Salaries	360	186
Pension contribution	11	6
Personal income tax	33	17
	404	**209**

26. Commitments and contingencies

	2013	2012
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	43,505	46,345
Letters of credit	7,287	5,370
International guarantees	12,577	7,790
Local guarantees	224	605
Less: Provisions recognised as liabilities	(303)	(74)
	63,290	**60,036**
Credit commitments		
Unused credit card facilities	4,797	6,682
Unused overdraft limits approved	30,666	30,548
Non-disbursed loan tranches	3,823	7,451
Unused portion of credit lines	4,219	1,664
	43,505	**46,345**

Guarantees and letters of credit issued in favour of customers are secured by cash collateral, real estate and counter guarantees received from other financial institutions.

Commitments to extend credit represent contractual commitments to grant loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total amounts do not necessarily represent cash requirements.

Legal cases
In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2013.

Operating lease commitments
The Bank has entered into commercial property leases for its offices. At 31 December 2013 and 2012, the Bank's future minimum rentals payable under non-cancellable operating leases were in amount of EUR 186 thousand (2012: EUR 218 thousand). All these commitments are not longer than one month.

27. Events after the end of the reporting period

No material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.