ProCredit Bank

Kosovo

Annual Report 2014

Contents

Mission Statement

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

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

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

Financial Statements

Management Board

Ilir I. Aliu
Chief Executive Officer

Eriola Bibolli
Deputy Chief Executive Officer

Political and Economic Environment[1]

In 2014, Kosovo faced the most challenging year since its declaration of independence. Aside from the complexities normally expected, additional difficulties in the overall political situation arose as a consequence of the parlimentary elections, which resulted in the creation of several political groupings which proved unable to create and maintain a stable parliamentary majority. This led to a political crisis, which effectively blocked the normal functioning of the country's institutions. In this respect, the five-month political deadlock took a toll on the general macroeconomic development in the country and delayed key reforms.

Despite the negative developments in the political arena, the uniting element of the main political parties that make up the new government remains the country's EU integration. This serves as the main catalyst for change and provides incentives for a series of reforms. This is demonstrated through political and institutional unity on some issues of key importance, such as the dialogue with Serbia, the EULEX mandate, and other reform efforts.

Negotiations on the Stabiliation and Association Agreement (SAA) between Kosovo and the EU began in October 2013 and were completed in May 2014. The main components of this agreement are enhancing trade relations between the EU and Kosovo, the obligation of Kosovo to align its legislation with the EU Acquis in a broad range of sectors, and the possibility of developing a political dialogue between the EU and Kosovo. This agreement is expected to contribute to the development of trade and investment and the modernisation of the legal and institutional setup, which are all crucial to Kosovo's economic restructuring and modernisation. The Stabilisation and Association Agreement is expected to be signed in 2015.

Kosovo's commitment to the EU-facilitated dialogue and to the normalisation of relations with Belgrade is key to the advancement of its European ambitions. The visa liberalisation dialogue has been a key priority for Kosovo. Despite positive advances during the initial stages, developments in the last quarter of 2014 were accompanied by serious concerns, as the number of people leaving Kosovo illegally for the EU was the highest recorded since the conflict in the 1990s.

Despite the complex political environment, the main macroeconomic indicators showed positive developments in Kosovo's economy in 2014. According to the Central Bank of Kosovo, the real economic growth rate is expected to be 3%. The economic activity in the country was supported mainly by increased consumption, while investment and net exports contributed negatively. The deterioration in investments is assessed to be a result of the considerable decline in public investments, caused by delays in the consolidation of institutions in the country. However, private investments are expected to increase.

Due to the improved economic performance of the main diaspora countries, higher remittances underpinned private consumption. Inbound private transfers continue to reduce the deficit in both the current and capital account components of Kosovo's balance of payments and strongly support the economy.

The banking system remained stable, with an aggregate capital adequacy ratio above 17%, reflecting both higher equity and slowed growth in riskweighted assets. Despite the higher percentages of non-performing loans (8.3%), the banking sector remains healthy with a very comfortable loan to deposit ratio (74.2%) and an ROAE of 20.2%. The positive performance and the strength of the banking sector will enable the banks to support economic development as overall conditions improve.

[1] -COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Enlargement Strategy and Main Challenges 2014-2015 (Kosovo 2014 Progress Report)
- Financial Stability Report (No. 6) PUBLISHER © Central Bank of the Republic of Kosovo, Dept. of Financial Stability and Economic Analysis.
- FINANCIAL SYSTEM MONTHLY INFORMATION , DECEMBER 2014 , PUBLISHER © Central Bank of the Republic of Kosovo Economic Analysis and Financial Stability Department
- International Crises Group reports

Financial Sector Developments[2]

In 2014, the number and the distribution of financial institutions in Kosovo remained almost the same as in the previous year. Specifically, the total number of financial institutions was 84 and included 10 commercial banks, 13 insurance companies, 2 pension funds, 41 financial auxiliaries and 18 microfinance institutions.

The growth trend in the financial sector continued in 2014, with total assets reaching EUR 4.3 billion at mid-year, representing year-on-year growth of 12.2% (2013: 8.1%). 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 3.2 billion – an increase by 4.2% (2013: 8.1%). This growth in the banking sector was primarily due to growth of 3.6% (EUR 104 million) in the volume of deposits and slightly higher loan volume growth by 4.2% (EUR 76.5 million).

The market share held by the three largest banks (in terms of total assets) remained nearly the same as last year at 62.6%. ProCredit Bank Kosovo retained its leading position in the banking sector with 25.1% of total assets and a market share of around 26% in deposits and 24% in loans.

Due to the higher absolute growth in deposits compared to loans, the loans-to-deposits ratio at year-end stood at 74.2% (2013: 73.7%). As a result, the level of liquidity in the banking sector reached record highs, with deposits surpassing the loan portfolio by EUR 687 million. These developments, 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.

[2]Data reported in this section were drawn from the following sources:

- Financial Stability Report No. 6 (December 2014), Central Bank of Kosovo
- Monthly Statistics Bulletin No.160 (December 2014), Central Bank of Kosovo
- Kosovo Banking Association
- Financial System Monthly Information (December 2014), Central Bank of Kosovo

The developments described above, along with prudent regulation from the Central Bank of Kosovo, allowed the banking system to continue to maintain its resilience in 2014. In addition, the banking system was able to rely on funding from stable domestic deposits, while non-performing loans marked a decrease to 8.3% as of Decemeber 2014 (December 2013: 8.7%).

The net profit of the banking sector, calculated according to CBK rules and regulations, stood at EUR 60.1 million in 2014, which represents a 132% year-on-year increase (2013: EUR 25.9 million) mainly coming as a result of lower impairment losses.

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 trust and credibility of the financial sector.

In 2014, continued development in the market for government treasury bills was reflected in the increased amount invested by banks, which amounted to EUR 192.7 million by the end of the year (2013: EUR 100.1 million).

Deposits and other banking services

In 2014, based on the sustainability of its deposits, ProCredit Bank once more demonstrated the confidence it enjoys from its clients. Deposits from Private Clients continued to represent the majority of deposits, accounting for 75.5% of the total value of EUR 678 million at the end of 2014. The composition of the deposit portfolio for 2014 in terms of current accounts, savings accounts and term deposits was 36.72%, 36.77% and 26.51% of the total respectively. On the other hand, with regard to private clients, the Bank continued to emphasise the role of savings as they are an important factor in providing financial stability for our clients.

In the Cards & e-Business segments, new developments included the implementation of projects and other long-term plans, as well as measures which were designed to react to market changes. Towards the second part of the year, the focus shifted strongly towards increasing the efficiency of Service Points and other ways of supporting the bank's goals in the context of automatic banking devices and electronic services.

The range of card products was expanded with the introduction of the Revolving Credit Card, which was the first step towards creating an attractive and competitive alternative to installment cards in the market; further improvements are planned. The major e-Banking update of the year included many user-friendly improvements and additional functionalities designed to increase the benefits of e-Banking for both private and business clients.

Many more Self Service Corners (24/7 Zones) were fitted with cash-in ATMs during the second part of the year, and the first PayBox device was launched after several months of testing. These steps put us in a good position to continue towards our goal of increasing the share of transactions made at Service Points.

2014 was especially marked by a year-on-year increase in card transactions at ATMs and POS terminals, which was the result of investing in a campaign to promote card usage. The utilisation of other electronic services also continued its steady upwards trend.

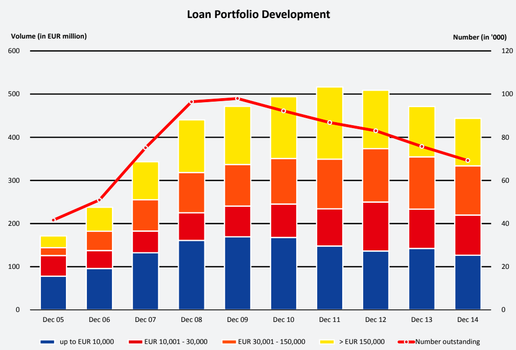
Lending

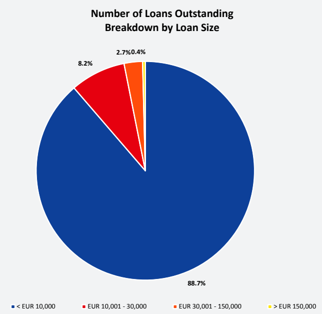
In line with ProCredit Bank's vision and its commitment to providing high-quality banking services to its customers in a professional manner, our institution made continuous efforts to design services which help our clients to manage their finances more easily. By implementing the concept of Client Advisers dedicated to all businesses categories, we have improved our quality of service as well as our relationships with clients. As a result, during 2014, ProCredit Bank continued to provide strong support to our business and private clients' investment plans.
The Bank disbursed EUR 78 million to Private Clients during the year. By the end of 2014, ProCredit Bank's Private Client loan portfolio amounted to more than EUR 130 million, with home improvement loans and mortgage loans making up more than 91% of this portfolio.

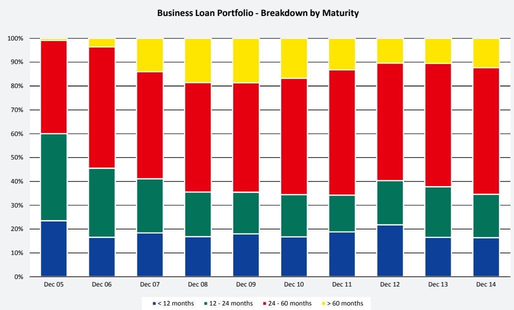
A responsible approach to environmental protection is an important part of ProCredit Bank's social responsibility and it is a value integrated into our banking philosophy. In this context, ProCredit Bank has continued providing solid support for clients who have invested in measures contributing to environmental protection and energy savings. At the end of 2014, the share of green loans in the total Private Client portfolio reached about 7%. The term "Green loans" covers all financial services for investments in energy saving, renewable energy sources, and other environmentally friendly measures. Although 2014 was characterised by strong competition in the area of lending to private clients, ProCredit Bank managed to maintain the high quality level of this portfolio, which comprises home improvement loans, green loans, mortgage loans, education loans and private loans as well as salary overdraft facilities and credit cards.

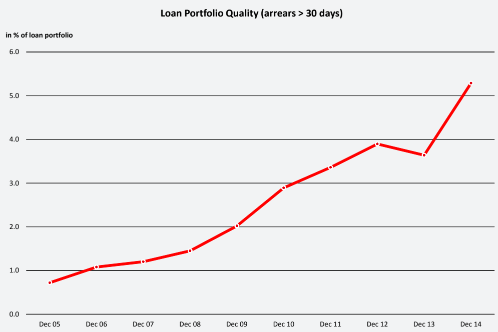
The bank's main objective with regard to Small business clients in 2014 was strengthening its position in this segment, i.e. concentrating on clients who have a long-term relationship with the bank and whose business has shown to have been stable over the years. Consequently, the focus was on the consolidation of the "house bank" concept for Small clients. We believe that small businesses are the generators of growth and employment and that this is also in full harmony with our mission.

Consequently, most disbursements for Small businesses are oriented towards short-term investments






Business Loan Portfolio - Breakdown by Maturity
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Dec 05
Dec 06
Dec 07
Dec 08
Dec 09
Dec 10
Dec 11
Dec 12
Dec 13
Dec 14
< 12 months
12 - 24 months
24 - 60 months
> 60 months


Loan Portfolio Quality (arrears > 30 days)
in % of loan portfolio
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Dec 05
Dec 06
Dec 07
Dec 08
Dec 09
Dec 10
Dec 11
Dec 12
Dec 13
Dec 14

for working and mixed capital; however, the share of investment loans is also significant, accounting for 21% of the total. The bank disbursed 605 new loans and other short-term loans to Small business clients, amounting to EUR 37 million. At the same time, the average amount of disbursed loans was EUR 61,373, with an average maturity of 33.7 months. The total volume of loans dedicated to Small businesses reached EUR 94.7 million by the end of 2014.

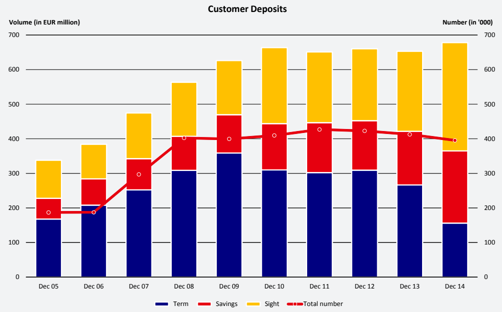
During 2014, the bank's primary objective with regard to Very Small businesses was serving those that have built up a solid position in the local market and whose business model has the potential for future development. Focusing on Very Small business clients with a potential of =›EUR 10,000 has resulted in an increased average disbursal in this category of EUR 16,208. The share of new loans increased during 2014, with 1,248 new disbursals to Very Small business clients, amounting to EUR 21 million. The total volume of this portfolio was EUR 48.3 million at the end of 2014.

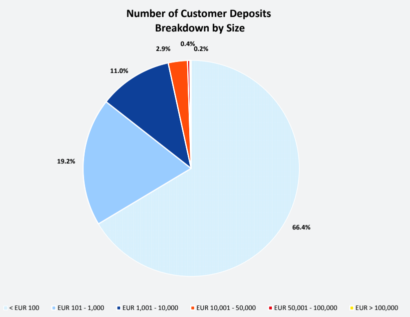
Businesses of agricultural producers and processors of local foods are a very important target group for ProCredit Bank; we have therefore adopted a supporting role in the supply chain by establishing collaborative partnerships to promote the sustainable development of the agricultural sector in general.

During 2014, the focus was mainly on long-term agricultural capital investments, such as increasing the capacity of farms, updating agricultural machinery, purchasing agricultural land, etc. As a result of the shift of focus to loans =›EUR 10,000, the total portfolio increased by EUR 1.7 million to EUR 38.7 million, with credit exposures over EUR 10,000 increasing by EUR 9.5 million.

During 2014, the Medium Business Department was mainly focused on structuring and refining the general client database and its loan portfolio. During the year, the emphasis was on building and maintaining strong relationships with our business clients. We provided them with sound advice on improving their official financial reports and on how to optimise their accounting systems. This will continue to be an important task in the coming years, since we consider it to be a vital contribution to the general development of the economic sector and as a key indicator for us in maintaining a strong loan portfolio. Special importance was also placed on the promotion and further development of the use of electronic services and trade finance services.

The main goal for 2015 remains maintaining strong long-term relationships with our clients. Therefore, in addition to providing lending services, we have heavily promoted other banking services and electronic services, which we consider to be beneficial to our clients. The Bank will continue to enhance banking facilities and services for businesses in order to provide support for their enterprises. Besides supporting businesses' short- and medium-term invest-





ments, our focus for 2015 will also include supporting long-term investments, with a particular emphasis on manufacturing and service businesses as well as commercial enterprises.

Financial Results

ProCredit Bank Kosovo's balance sheet remained stable, with structural changes on both the asset and liability sides, ensuring that the financial results were in line with projections. Total assets at year-end stood at EUR 801.8 million, a slight increase of 1.3% compared to 2013. The development on the asset side comes as a result of the decline in the total loan portfolio offset by the higher growth in cash and balances with the Central Bank and placements to banks. Growth in cash and placements is caused by the growth of the deposit base, which at year-end totalled EUR 686 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 27.5 million during 2014. The 5.8% 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. Allowances for loan impairment decreased to EUR 31.1 million (by EUR 2.8 million) at the end of 2014 which was reflected in lower impairment losses by EUR 4 million. More than 95% of the Bank's liabilities were

customer deposits, which stood at EUR 686 million at year-end, an increase by 3.1% from the previous year. The change in the deposit structure was one of the most important developments in 2014. The share of term deposit accounts in the total decreased by 18% (by EUR 110 million). At the same time, the volume of current accounts increased by EUR 81 million and the volume of savings accounts increased by EUR 54 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 153.6%, underlining once again the stability of the funding base.

The bank's liquidity position remained very strong in 2014, with liquid assets accounting for 38.8% of total assets and the ratio of liquid assets to deposits standing at 45.4%. 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 55.3 million, a decrease of 19.1% over 2013, following the same trend as the gross loan portfolio. Interest income represented 81.9% of total operating income, with the majority (98.8%) being earned from loans. Interest expenses amounted to EUR 9.1 million, a 41% decrease compared to 2013, mainly due to changes in the deposit structure and a decrease in deposit interest rates.

Income from fees and commissions totaled EUR 10.1 million (2013: EUR 9.9 million). This item is composed of account maintenance fees (13.7%), fees on domestic and international money transfers (40.7%), card fees (28.3%), and fees from trade finance products and other commission income (17.3%). In 2014 total net fee and commission income remained stable at EUR 6.4 million.

Total operating expenses in 2014 were EUR 26.5 million, representing a decrease of 7.4% compared to 2013. The lower amount was mainly due to the decrease in general and administrative expenses as well as personnel expenses. Strict budget controls and income development resulted in a stable cost-income ratio, which at year-end stood at 48.5%.

ProCredit Bank Kosovo posted a net profit of EUR 14.6 million for 2014, representing a return on equity of 15.14% (2013: 16.37%). In April 2014, the bank paid out EUR 20 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 18.70% at year-end (2013: 19.38%). This ratio was well above the minimum level required by both 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

According to forecasts of the Central Bank of Kosovo the economic outlook in 2015 will continue to be positive, with slightly higher GDP growth rate than in the past three years. Despite the more positive forecasts, GDP growth rate alone will not be sufficient to address various needs of the population and the events of 2014 are a serious reminder that political instability can have severe consequences in the political and economic reforms thus negatively affecting businesses.

Economic developments in 2015 will be determined to a high degree by expected fiscal reforms and economic initiatives. The positive outlook for economic growth is based on stable consumer demand and planned government expenditures

In line with our strategic goal to be house bank for small and medium sized businesses, ProCredit Bank Kosovo will undertake a series of activities and the largest technology investments to date to ensure that our clients , businesses but as well as private individuals will continue to benefit from the reliable services of our bank in 2015. In this respect investments in our 24/7 zones will ensure that banking in Kosovo moves in the same direction as in the most advanced economies. Apart from traditional branch network , ProCredit Bank Kosovo will provide to its clients the most modern banking facilities equipped with technology which ensures fast , cost efficient , reliable and 24/7 banking.

These investments in turn will enable the advising role of our staff to increase and to respond to growing needs of the businesses and private individuals.

Among our strategic targets for 2015 focus on green lending and investment loans will continue to remain high, 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.

The precondition for achieving our strategic goals is the quality of our staff. In this respect ProCredit Bank Kosovo will invest in the modern training facility which is an additional sign of long term commitment by the shareholders, ensuring that training and professional development remains our highest priority.

Risk Management

a. Managing Credit Risk

ProCredit Bank's core business consists of lending to Very Small, Small and Medium business clients. Lending to both businesses and private clients is the Bank's main asset-side operation. Thus 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 greatest risk faced by the Bank and accounts for the largest share of risk when calculating risk bearing capacity.

The Bank's basic principles for managing credit risk are set out in the Bank's Credit Risk Management Policy and Collateral Valuation Policy. These policies are based on the ProCredit Group Credit Risk Management Policy and the Group Collateral Valuation Policy, which together reflect the experience of the group, gained over two decades of successful lending operations in developing and transition economies. These policies are in full compliance with the Laws and Regulations of Republic of Kosovo.

The Bank applies certain principles in order to manage and mitigate credit risk. These principles include: intensive analysis of the debt capacity of clients, avoidance of over-indebting clients, monitoring credit exposures, managing problem credit exposures, implementing carefully designed and well-documented processes, applying the four-eyes principle, building personal and long-term relationships with clients and maintaining regular contact, as well as investing in well-trained and highly motivated staff.

Moreover, credit risk is further mitigated by the fact that the Bank's loan portfolio is diversified. This diversification is an integral part of the credit risk management policy and business is spread across a wide range of economic sectors, client groups, Very Small, Small and Medium businesses, as well as private individuals and institutions. A further characteristic of the Bank's approach is that it seeks to provide clients with simple, easy-to-understand products. Both the high degree of diversification and the Bank's simple, transparent products and procedures serve to reduce its overall risk profile. As of end-2014, loans under EUR 50,000 accounted for 52.10% of the total outstanding portfolio (client level based), while 72.25% of the portfolio consisted of loans granted to business clients. In addition, the top 10 largest exposures make up only 8.84% of the portfolio (including on- and off-balance sheet items).

Different credit risk management methods are applied when dealing with different categories of clients and credit exposures. The key features of the lending processes for business and private clients and for the different credit exposure categories are as follows: segregation of duties for Medium and Small credit exposures, standardised processes in lending to Very Small as well as Private clients, with different collateral requirements based on documentation, amounts 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 2014, the bank's overall PAR>30 improved, although the business environment faced political instability during two last quarters of the year, which had a chain effect in the government's capital investments and increased market insecurity. Furthermore, it should be noted that ProCredit Bank's NPL is much better than the average for the Kosovo 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 impairment assessment, while provisioning for impaired loans that are not individually significant is calculated according to historical default rates. Portfolio-based allowances for impairment are made for all unimpaired credit exposures. At the end of the year the coverage ratio (loan loss provisions according to CBK, as a percentage of PAR>30) stood at 144%, and as a percentage of the total loan portfolio, provisions amounted to 7.23%. 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

ProCredit Bank is exposed to risk from counterparties and issuers of securities due the fact that the Bank is required to hold a portion of its assets in liquid form in order to manage its transactions and liquidity risk management. The risk of exposure to counterparties and issuers presents the risk that these parties may not be willing or capable of meeting their obligations towards the Bank.

However, these risks are actively and carefully managed by the Bank through its Counterparty and Issuer Risk Management Policy, Treasury Policy, Investment Policy, etc. In these policies, as in well as other banking procedures, the processes of careful selection of counterparties, setting exposure limits, permitted transactions and their processing rules are defined in detail.

ProCredit Bank has a relatively low tolerance towards this risk and does not perform speculative trading activities. Selected counterparties are mainly institutions with high credit quality, a good reputation and high financial sustainability. In principle, no exposure or agreement can be realised without determining a limit in advance. The process of determining the limits is undertaken based on a thorough analysis by the Bank. The Bank's policies and procedures are also in accordance with the regulations of the Central Bank of the Republic of Kosovo.

The exposure to the issuers of securities is also controlled and the impact on the Bank from changes in market prices is limited due to the generally short maturity periods of securities and the selection of issuers based on measured risk criteria.

c. Managing Liquidity Risk

Liquidity risk is the risk that a bank will not be able to meet current and future obligations to the full extent or in a timely manner. Financing risk is the risk that additional financing could only be obtained at very high interest rates or cannot be obtained at all if needed.

ProCredit Bank manages liquidity risk through its policies and procedures in accordance with regulatory requirements. Controlling and reducing liquidity risk is supported by the Bank's business model. On the one hand, the loan portfolio is made up of a large number of short- and medium-term exposures for Very Small and Small businesses. Most of these loans are disbursed as annuity loans and are of a high quality. From the perspective of liquidity risk, this leads to diversified and predictable inflows. On the other hand, deposits from the target group of small savers are our main source of funding. The use of financial markets instruments is low and the risk of a sudden outflow of cash is limited in this way.

As part of its liquidity management, the Bank has defined and continuously monitors its liquidity indicators. Also, it regularly conducts liquidity stress tests based on defined scenarios that help it analyse its liquidity positions in case of potential internal or external shocks. During 2014, ProCredit Bank had a very satisfactory level of liquidity due to its good level of highly liquid assets. At the end of 2014, the highly liquid assets indicator stood at 46%.

The Bank considers the funding risk to be low because of the support from the variety of client deposits and the fact that the bank continues to have access to financing from various international sources.

d. Managing Currency Risk

Foreign currency risk is defined as the risk of negative effects on financial results and capital adequacy of an institution caused by changes in exchange rates. Foreign currency risk is managed by ProCredit Bank in accordance with the Risk Management of Foreign Currency Policy, which is compliant with the requirements of the CBK Regulation on Risk from Foreign Currency Activities.

ProCredit Bank has a low level of exposure to currency risk as it holds no speculative open currency positions. At year-end 2014, the Bank had a USD open currency position of 0.07% of Tier 1 capital (0.18% as per CBK) and an open position for all foreign currencies of 0.22% of Tier 1 capital (0.23% as per CBK).

Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously. The limits established for this risk were not exceeded at any point during 2014. Therefore, foreign currency risk is considered to be low and will continue to be stable.

e. Managing Interest Rate Risk

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 and the Managment Board. Loans with variable interest rates are also offered in order to reduce interest rate risk.

f. Managing Operational Risk and Fraud

In accordance with Basel II principles and relevant regulations of the Central Bank of the Republic of Kosovo, operational risk is defined as the risk of loss as a result of inadequate internal processes, risk from people as well as systems and or external events. This definition also includes legal risk. The Bank manages its operational risk through policies intended to mitigate these risks, which include the Operational Risk Management Policy, Fraud Prevention Policy, Information Security Policy, Outsourcing Policy, etc. Management of this risk is supported by intensive training of staff at all levels, which has proven to be effective in reducing and eliminating operational risk. Managing capital adequacy is based on the Bank's policies and is in accordance with the regulations of the Central Bank on capital adequacy.

To mitigate operational risk and fraud, all of the Bank's major 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 during regular staff training.

The Bank uses a risk event database (RED) to ensure that operational risks and cases of fraud are addressed in a systematic manner and that a record is kept of 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 to detect any possible risks and are subject to approval. In addition, key risk indicators are monitored on a regular basis.

g. Preventing Money Laundering

ProCredit Bank Kosovo actively supports the fight against money laundering and terrorist financing. Its policies and procedures against money laundering are designed to ensure that the institution compies 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 in place to reduce the risk that the Bank's services may be used to facilitate money laundering, terrorist financing or financial crimes in general.

In addition to adhering to local policies, the Bank has also implemented the ProCredit group's policy on fighting money laundering, in line with the requirements established in German and EU legislation. The Bank complies with the USA's Foreign Account Tax Compliance Act – FATCA; therefore, it has appointed an Officer and a Deputy Officer for FATCA, who serve as contact persons for the US tax authorities (Internal Revenue Service) and the Tax Administration of Kosovo.

No client is accepted and no transaction is executed unless the bank understands and approves of the fundamental purpose of the business relationship. Additional automated protection is provided through the use of three SIRON modules: Siron Embargo, Siron PEP and Siron AML, provided by Tonbeller AG.

The responsibility for combatting money laundering lies with the Anti-Money Laundering Unit. This unit consists of three Anti-Money Laundering Officers, who support the Head and Deputy Head of Anti-Money Laundering, as required by local banking regulations and laws. The Bank's AML Unit, 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. Based on Law no. 03/L-196 on the Prevention of Money Laundering and Terrorist Financing and Law 04-L-178 on Amending and Supplementing Law 03/L-196, any cash transaction exceeding EUR 10,000 (including multiple transactions that add up to a total of EUR 10,000) is reported to the Financial Intelligence Unit (FIU-K). Moreover, any attempt to execute transactions which give rise to suspicion of money laundering, terrorist financing or any other criminal activity is also reported to FIU-K in compliance with these laws. Bank staff attend intensive training courses (domestic and international) on the latest developments in the area of combating money laundering and the financing of terrorism.

h. Capital Adequacy

The Bank's capital adequacy is calculated on a monthly basis and reported to Management via the Risk Management Committee; forecasts are also made to ensure future compliance with regulatory requirements on capital adequacy. Managing capital adequacy is undertaken based on the Bank's policies and in accordance with the regulation of the Central Bank on capital adequacy.

The Bank was well capitalised throughout 2014, maintaining capital adequacy ratios above the limits set out in the Bank's own policies and banking regulations. At the end of 2014, the total capital adequacy ratio stood at 16.5% (18.7% as per CBK), which significantly exceeds the minimum ratio of 12% set by the regulatory authority. Furthermore, the Tier 1 capital adequacy ratio was 13.3% (15.2% as per CBK), which likewise exceeds the 8% minimum ratio set by CBK.

During 2014, FitchRatings upgraded the overall classification of ProCredit Bank to B +.

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 continually invests in human resource development. We pay special attention to the recruitment and selection process, as well as providing regular training to our existing staff as we believe that the competence and commitment of our staff is crucial in providing high-quality customer service in a responsible manner.

The Human Resources and Training Department constantly helps employees raise the level of quality in their performance by offering various opportunities for development. The staff evaluation process is another general strategy of the Bank for assessing employees' performance. This, together with the salary structure and a number of training opportunities, serve as a valuable tool to develop and enhance the performance of our staff and, as a result, this has also improved the culture and general performance of the Bank.

Staff development is a key strength of ProCredit Bank. Only professional and well-trained staff can offer excellent services to the clients. Investment in staff training and development is split into three main areas/segments, i.e. ProCredit academies and language centres, specialised training and other training.

ProCredit Academies and Language Centers:

Advanced training courses are conducted at ProCredit's regional Academy in Veles, Macedonia and at the group Academy in Fürth, Germany. As English is the second working language at ProCredit Bank, English language courses are provided to staff at various levels. This year alone, 46 employees participated in English training courses at the academies.

The academies provide a highly conducive and enriching multicultural environment, where professional training is provided to managers, middle managers, and future management staff. The training courses are organised in various blocks held over a period of one year at the regional academy and three years at the group academy.

In 2014, 10 managers graduated from these academies: seven from the regional academy in Macedonia and three from the ProCredit Academy in Germany. There are a further eight employees who are currently attending ongoing courses at the academy in Germany.

Specialised Training:

Growing together with our clients as well as understanding their financial needs and their business is at heart of the Bank's business model. Therefore, we continued to provide specialised Business Client Adviser courses to train them in satisfying clients' needs and providing them with the best services. These courses started in 2013 and continued throughout 2014.

Other Training:

In 2014, a new training course was introduced for all ProCredit Bank staff: Risk Awareness Training. This is designed to refresh employees' knowledge of the importance of being aware of the different situations that they may face in their daily work. By sharing their experiences with each other, all the staff were reminded of how important it is to respect and obey the code of conduct fully; it also raised their awareness on the importance of being responsible for reporting breaches of this code of conduct at any level by anyone within the institution.

Other courses held during 2014 included Leadership Training, Business and Private Client Adviser Training and Green Finance Training.

Overall, ProCredit Bank Kosovo invested approximately EUR 800,000 into staff training and development in 2014, which equates to an average annual investment of around EUR 1,150 per employee. Recruiting new ProCredit Staff (Young Bankers Programme)

A strong focus in 2014 continued to be on the identification of young recruits willing to join the ProCredit team. Our dedicated training and recruitment system, the Young Bankers Programme (YBP), was conducted for the fourth year in 2014.

Through the YBP, ProCredit Bank offers training opportunities to candidates who wish to contribute their views and critical thinking at a successful bank. We are also open to candidates with non-financial backgrounds who are interested in learning a different approach to banking that is based on high professional standards and a profound understanding of our clients' needs. The Bank seeks highly motivated, talented, and friendly people with a variety of academic backgrounds – candidates who are willing to get involved, to learn, and to develop within the institution.

Programme Structure

We believe thet everyone is capable of learning what they do not already know. Therefore, ProCreditBank offers the YBP, a unique opportunity for candidates with different profiles to develop comprehensively and gain employment. The role of banks in society goes beyond the economic impact in the country.

The YBP challenges candidates to grow, with courses covering more general topics, such as: the philosophy of doing business; the role of financial intermediation and education in the development of a country; our approach to environmental protection; the impact of globalisation on how a society operates; and many other topics, including our code of ethics and socially responsible approach. Overall, what makes the programme unique and attractive is the manner in which these topics are explored. Interactive learning, open discussion, group work and projects are part of the daily routine of the programme. The teaching methods are designed so that candidates develop both in personal and professional terms, and are able to fit in better with the working environment. The programme lasts six months and is held at our Training Centre; each new group has about 30 participants. Candidates selected to participate in the programme receive a stipend during the six-month period.

There is a strong chance that participants who successfully complete the programme will be offered jobs at ProCredit Bank Kosovo.

Videos presenting the YBP from a local perspective can be viewed on the ProCredit Bank website.

Building Relationships

Regular recruitment events and activities organised during 2014 had a positive impact on attracting people with the profiles we are searching for.

To date, 11,249 people have applied to take part in the programme, from which only 255 were selected. From the programmes completed so far, 168 participants have been hired. In 2014, another 34 candidates were selected to join the YBP; 25 candidates graduated from previous groups and were employed by the Bank.

As in previous years, internship opportunities were offered twice in 2014 (summer and winter), targeting students from public and more prestigious private universities. Since internships are part of the mandatory curriculum of most universities in Kosovo, by offering these opportunities to students, ProCredit Bank plays an important role in contributing to the country's financial education efforts. The Internship Programme is a great opportunity for students to get to know the Bank and decide whether, after graduating, they would like to participate in the selection process for the YBP, which is the only entry point to a career with ProCredit Bank. In 2014, 117 students were selected for internships.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Financial Statements

Financial statements ended 31 December 2014

General Information

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

Registered office
Mother Theresa Boulevard, No 16
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 shareholders and Board of Directors of
ProCredit Bank Kosovo

Pristina, 30 March 2015

We have audited the accompanying financial statements of ProCredit Bank Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2014, the statement of profit and 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk, Kosovo Branch

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

PROCREDIT BANK KOSOVO
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December
In EUR thousand

	Notes	2014	2013
Interest income	7	55,338	68,394
Interest expenses	7	(9,123)	(15,473)
Net interest income		**46,215**	**52,921**
Fee and commission income	8	10,132	9,938
Fee and commission expenses	8	(3,769)	(3,300)
Net fee and commission income		**6,363**	**6,638**
Net (loss)/gain on available-for-sale securities		(3)	558
Net foreign exchange gain		553	618
Other operating income		1,515	1,132
Impairment losses	13	(11,478)	(15,640)
Administrative and other operating expenses	9	(26,496)	(28,608)
Profit before taxation		**16,669**	**17,619**
Income tax expense	10	(2,116)	(1,541)
Net profit for the year		**14,553**	**16,078**
Other Comprehensive Income:			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets)	10	205	(45)
Total comprehensive income for the year		**14,758**	**16,033**

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 46.

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

	Notes	2014	2013
Assets			
Cash and balances with the Central Banks	11	162,051	96,849
Loans and advances to banks	12	110,434	62,019
Loans and advances to customers	13	415,512	440,205
Available-for-sale (‘AFS’) financial assets	14	94,995	170,090
Intangible assets	15	808	1,129
Property and equipment	16	14,448	17,008
Other financial assets	17	2,716	1,608
Prepaid income tax	10	-	1,125
Other assets	18	789	1,078
Total assets		**801,753**	**791,111**
Liabilities			
Due to banks	19	282	450
Due to customers	20	686,211	665,575
Subordinated liabilities	21	14,825	25,013
Income tax payable	10	371	-
Deferred tax liabilities	10	193	884
Other financial liabilities	22	2,447	1,758
Other liabilities	23	1,416	1,181
Total liabilities		**705,745**	**694,861**
Shareholder’s equity			
Share capital	24	61,346	56,346
Share premium	24	4,204	4,204
Contingency reserve	24	511	511
Fair value reserve	24	(64)	(269)
Retained earnings		30,011	35,458
Total shareholder’s equity		**96,008**	**96,250**
Total liabilities and shareholder’s equity		**801,753**	**791,111**

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 46.

These financial statements have been approved by the Management Board on 24 March 2015 and signed on their behalf by:

Ilir Aliu
Chief Executive Officer

Rezak Fetai
Senior Manager

PROCREDIT BANK KOSOVO

STATEMENT OF CASH FLOWS

For the year ended 31 December

In EUR thousand

	Notes	2014	2013
Cash flows from operating activities			
Profit before tax		**16,669**	**17,619**
Adjustments for:			
Depreciation	16	2,569	2,793
Amortization	15	762	662
Loss on disposal of property and equipment		96	2,380
Impairment losses	13	11,478	15,640
Interest income	7	(55,338)	(68,394)
Interest expense	7	9,123	15,473
		(14,641)	**(13,827)**
Changes in:			
Due from banks		(20,004)	-
Loans and advances to customers		12,127	27,598
Other assets		289	126
Other financial assets		(1,108)	382
Statutory reserve with CBK		(3,513)	266
Due to banks		(168)	(1,069)
Due to customers		24,821	(8,412)
Other liabilities		235	192
Other financial liabilities		689	(239)
		(1,273)	**5,017**
Interest received		57,499	66,123
Interest paid		(13,541)	(15,631)
Income taxes paid		(1,333)	(1,469)
Net cash generated from operating activities		**41,352**	**54,040**
Cash flows from investing activities			
Net proceeds from sale of AFS financial assets		74,250	(65,403)
Proceeds from sale of property and equipment		1,676	170
Acquisition of property and equipment		(1,781)	(3,909)
Acquisition of intangible assets		(441)	(649)
Net cash from/(used in) investing activities		**73,704**	**(69,791)**
Cash flow from financing activities			
(Repayments)/proceeds from borrowed funds		(9,955)	8
New capital subscribed		5,000	5,000
Dividends paid		(20,000)	(25,000)
Net cash used in financing activities		**(24,955)**	**(19,992)**
Net increase/(decrease) in cash and cash equivalents		**90,101**	**(35,743)**
Cash and cash equivalents at the beginning of the year		**119,614**	**155,357**
Cash and cash equivalents at the end of the year	11	**209,715**	**119,614**

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 46.

PROCREDIT BANK KOSOVO
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014
In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
Balance at 1 January 2013	**51,346**	**4,204**	**511**	**44,380**	**(224)**	**100,217**
Transactions with owner 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**
Transactions with owner of the Bank:						
Dividends paid	-	-	-	(20,000)	-	(20,000)
Capital subscribed	5,000	-	-	-	-	5,000
Contributions and distributions	**5,000**	**-**	**-**	**(20,000)**	**-**	**(15,000)**
Total comprehensive income						
Profit for the year	-	-	-	14,553	-	14,553
Other comprehensive income						
Net change in fair value of AFS financial assets	-	-	-	-	205	205
Other comprehensive income	**-**	**-**	**-**	**-**	**205**	**205**
Total comprehensive income	**-**	**-**	**-**	**14,553**	**205**	**14,758**
Balance at 31 December 2014	**61,346**	**4,204**	**511**	**30,011**	**(64)**	**96,008**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

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.

The Bank is a subsidiary of the 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 enterprises and private individuals throughout Kosovo.

The Bank's registered office is at Mother Theresa Boulevard, No 16, 10000 Prishtina, Republic of Kosovo. During 2014, the Bank operated with branches, service centers and service points located throughout Kosovo.

Board of Directors at 31 December 2014:

- Mr. Borislav Kostadinov, Chairperson
- Ms. Helen Alexander, Member
- Mr. Rainer Ottenstein, 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 statements have 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 statements have been prepared on a historical cost basis except for the available-for-sale financial assets, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are 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 statements are 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) 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 Other Comprehensive Income (OCI) include:

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

(b) Fees and commission

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

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

(c) Operating leases

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

(d) Foreign currency transactions

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

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

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

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in 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 in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

3. Significant accounting policies (continued)

(e) Income tax (continued)

(ii) Deferred tax

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

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

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

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

(iii) Tax exposures

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

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, 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 (g), (h), and (i).

Financial liabilities

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

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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 realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

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

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

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

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

(All amounts expressed in EUR thousand, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(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 example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

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

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

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

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

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

All loans having an outstanding amount of EUR 30 thousand or more (2013: EUR 30 thousand or more) are assessed individually while loans below this threshold level are considered insignificant and assessed on group 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 the similar economic environments.

	Allowance Level 2014	Allowance Level 2013
arrears 0-30 days	1.45%	1.2%
arrears 31-90 days	45%	50%
arrears > 91 days	70%	75%
arrears > 180 days	90%	100%

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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.

(g) 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 amortized cost in the statement of financial position.

(h) 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.

(All amounts expressed in EUR thousand, unless otherwise stated)

3. Significant accounting policies (continued)

(i) Available-for-sale financial assets

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

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

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

Other fair value changes, other than impairment losses (see (f)(vii)), are recognised in 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.

(j) 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 lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as per the table below:

Description	Useful life 2014	Useful life 2013
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 lives are reviewed, and adjusted if appropriate, at each reporting date. Assets which are below 50 EUR are fully depreciated (2013: 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.

3. Significant accounting policies (continued)

(k) 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.

(l) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell.

(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 provided provision for employee's untaken vacations till 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.

3. Significant accounting policies (continued)

(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 2014, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has started the process of evaluating the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Bank’s operations, this standard is expected to have a pervasive impact on the Bank’s financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Bank’s financial statements:

- Defined Benefit Plans: Employee Contribution (Amendments to IAS 19)
- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisition of Interest in Joint Operations (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

(ii) Impairment of available for-sale investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an additional EUR 64 thousand (2013: EUR 269 thousand) loss in its 2014 financial statements, 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, however 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 capitalized and have favourable loan to deposit ratios. In the same time measures taken from the Central Bank of 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, such that an excess of liquidity is invested only in high quality (more than AA- sovereign or supranational) securities. Because of this, 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 core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

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

(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 2014 and 2013, 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.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

	Balances with the Central Banks		Loans and advances to banks		Loans and advances to customers		Available-for-sale financial assets		Other financial assets		Lending commitments and guarantees	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Maximum exposure to credit risk												
Carrying amount	114,101	53,668	110,434	62,019	415,512	440,205	94,995	170,090	2,716	1,608	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	-	-	73,638	63,593
	114,101	**53,668**	**110,434**	**62,019**	**415,512**	**440,205**	**94,995**	**170,090**	**2,716**	**1,608**	**73,638**	**63,593**
At amortised cost												
Neither past due nor impaired	114,101	53,668	110,434	62,019	387,189	399,038	94,995	170,090	2,716	1,608	-	-
Past due but not impaired	-	-	-	-	15,301	15,688	-	-	-	-	-	-
Impaired	-	-	-	-	44,336	59,643	-	-	-	-	-	-
Total gross amount	**114,101**	**53,668**	**110,434**	**62,019**	**446,826**	**474,369**	**94,995**	**170,090**	**2,716**	**1,608**	**-**	**-**
Allowance for impairment (individual and collective)	-	-	-	-	(31,314)	(34,164)	-	-	-	-	-	-
Net carrying amount	**114,101**	**53,668**	**110,434**	**62,019**	**415,512**	**440,205**	**94,995**	**170,090**	**2,716**	**1,608**	**-**	**-**
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	-	-	47,030	43,505
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	-	-	26,309	19,864
Letters of Credit: Low - fair risk	-	-	-	-	-	-	-	-	-	-	299	224
Total commitment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,638**	**63,593**
Provisions recognised as liabilities	-	-	-	-	-	-	-	-	-	-	(323)	(303)
Total exposure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,315**	**63,290**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

			2014			2013
Loans and advances to customers	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Total gross amount	134,092	312,734	446,826	126,423	347,946	474,369
Allowance for impairment (individual and collective)	(3,880)	(27,434)	(31,314)	(3,417)	(30,747)	(34,164)
Net carrying amount	**130,212**	**285,300**	**415,512**	**123,006**	**317,199**	**440,205**
At amortised cost						
Neither past due nor impaired	130,101	257,088	387,189	122,540	276,498	399,038
Past due but not impaired	2,527	12,774	15,301	2,757	12,931	15,688
Impaired	1,464	42,872	44,336	1,126	58,517	59,643
Total gross amount	**134,092**	**312,734**	**446,826**	**126,423**	**347,946**	**474,369**
Allowance for impairment (individual and collective)	(3,880)	(27,434)	(31,314)	(3,417)	(30,747)	(34,164)
Net carrying amount	**130,212**	**285,300**	**415,512**	**123,006**	**317,199**	**440,205**
Loans with renegotiated terms						
Carrying amount	1,835	53,917	55,752	1,663	48,090	49,753
From which: Impaired	*288*	*33,731*	*34,019*	*167*	*38,842*	*39,009*
Allowance for impairment	(427)	(17,381)	(17,808)	(283)	(17,289)	(17,572)
Net carrying amount	**1,408**	**36,536**	**37,944**	**1,380**	**30,801**	**32,181**
Past due but not impaired						
Past due 0-30 days	1,499	9,196	10,695	1,510	8,321	9,831
Past due 31 - 90 days	536	1,887	2,423	625	2,150	2,775
Past due 91 – 180 days	492	1,691	2,183	622	2,460	3,082
	2,527	**12,774**	**15,301**	**2,757**	**12,931**	**15,688**
Impaired						
Past due 0 – 30 days	370	24,068	24,438	337	35,383	35,720
Past due 31 - 90 days	-	1,025	1,025	59	3,056	3,115
Past due 91 – 180 days	-	929	929	1	3,700	3,701
Past due over 180 days	1,094	16,850	17,944	729	16,378	17,107
	1,464	**42,872**	**44,336**	**1,126**	**58,517**	**59,643**
Allowance for impairment						
Individual	(456)	(20,552)	(21,008)	(316)	(23,487)	(23,803)
Collective	(3,424)	(6,882)	(10,306)	(3,101)	(7,260)	(10,361)
Total allowance for impairment	**(3,880)**	**(27,434)**	**(31,314)**	**(3,417)**	**(30,747)**	**(34,164)**

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

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 (2013: EUR 30 thousand) at least quarterly 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 appropriate.

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

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Write-off policy

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

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 monitor 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 accordance to the new regulation on large exposures of the Central Bank of Republic of Kosovo, 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 time deposits with corresponding banks by credit ratings:

At 31 December	**2014**	**2013**
AA+ to AA-	9,938	17,477
A+ to A-	87,532	37,419
BBB+ to B-	12,964	7,123
	110,434	**62,019**

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.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

The table below presents the entire portfolio, which includes non-rated Kosovo Government securities:

Ratings at 31 December	**2014**	**2013**
AAA	72,479	142,391
AA+	9,134	19,433
Not-rated	13,382	8,266
Total	**94,995**	**170,090**

Lending commitments and financial guarantees

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

(ii) Risk limit control and mitigation policies

The Bank manage 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 and 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 funds 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 determined with a decision of credit committees. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The financial effect of collateral is presented by disclosing collateral values separately for

(i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”), and

(ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

	2014		2013	
At 31 December	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Retail				
Overdrafts	3,249	150	2,904	117
Credit Cards	831	855	808	908
Consumer Loans	6,002	3,470	7,453	3,103
Home Improvement	120,130	118,518	111,841	115,270
Corporate				
Business Overdrafts	35,909	134,461	38,447	137,825
Business up to EUR 150 thousand	153,451	257,776	178,838	283,120
Business greater than EUR 150 thousand	95,940	188,532	99,914	202,777
	415,512	**703,762**	**440,205**	**743,120**

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

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

	Loans and advances to customers			Fair value of collateral		
31 December 2014	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Mortgage	19,159	187,919	207,078	60,131	291,273	351,404
Pledge	102,403	96,859	199,262	62,862	289,496	352,358
Unsecured exposures	8,650	522	9,172	-	-	-
Total	**130,212**	**285,300**	**415,512**	**122,993**	**580,769**	**703,762**

	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**

(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.

5. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentration of credit risk (continued)

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 2014 and 2013. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2014			2013		
	OECD countries	**Kosovo**	**Total**	**OECD countries**	**Kosovo**	**Total**
Balances with the Central Bank	1,989	112,112	114,101	199	53,469	53,668
Loans and advances to banks	110,434	-	110,434	62,019	-	62,019
Loans and advances to customers	-	415,512	415,512	-	440,205	440,205
Available-for-sale financial assets	81,637	13,358	94,995	161,844	8,246	170,090
Other financial assets	-	2,716	2,716	-	1,608	1,608
	194,060	**543,698**	**737,758**	**224,062**	**503,528**	**727,590**

2) Industry

	2014			2013		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Balances with the Central Bank	-	114,101	114,101	-	53,668	53,668
Loans and advances to banks	-	110,434	110,434	-	62,019	62,019
Loans and advances to customers	130,212	285,300	415,512	123,006	317,199	440,205
Available-for-sale financial assets	-	94,995	94,995	-	170,090	170,090
Other financial assets	-	2,716	2,716	-	1,608	1,608
	130,212	**607,546**	**737,758**	**123,006**	**604,584**	**727,590**

The 'Corporate' segment includes banks and financial institutions.

(b) Market risk

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

(i) Foreign currency risk

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 taking capacity for the Bank are set by their respective policies, which are approved by the Board of Directors, and reviewed weekly 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):

	31 December 2014	**31 December 2013**
1 USD	0.8237	0.7251
1 CHF	0.8317	0.8146
1 GBP	1.2839	1.1995

The following tables summarises the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2014 and 2013 as translated into EUR '000.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2014	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash and balances with the central bank	156,298	1,466	3,691	596	162,051
Loans and advances to banks	100,149	6,547	3,597	141	110,434
Loans and advances to customers	413,294	2,218	-	-	415,512
Available-for-sale financial assets	82,626	12,369	-	-	94,995
Other financial assets	2,201	515	-	-	2,716
Total	**754,568**	**23,115**	**7,288**	**737**	**785,708**
Liabilities					
Due to banks	281	-	1	-	**282**
Due to customers	655,079	23,186	7,191	755	**686,211**
Subordinated liabilities	14,825	-	-	-	**14,825**
Other financial liabilities	2,447	-	-	-	**2,447**
Total	**672,632**	**23,186**	**7,192**	**755**	**703,765**
Net on-balance sheet financial position	**81,936**	**(71)**	**96**	**(18)**	**81,943**
Credit commitments	46,949	81	-	-	47,030
Off balance sheet - letters of credit	181	118	-	-	299
Off balance sheet - bank guarantees	25,698	611	-	-	26,309
Total credit related commitments	**72,828**	**810**	**-**	**-**	**73,638**

31 December 2013	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash and balances with the central bank	87,534	1,276	7,517	522	96,849
Loans and advances to banks	47,203	14,527	233	56	62,019
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**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk (continued)

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 2014	**Increase 2013**	**31 December 2014**	**31 December 2013**
USD	10%	10%	9	49
Other	10%	10%	13	1

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

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap At 31 December 2014		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		-	-	-	-	-	-	-	**-**	**46,484**
Balances with the Central Bank		300	-	-	-	-	-	-	**300**	**113,801**
Current accounts with banks		43,134	-	-	-	-	-	-	**43,134**	**851**
T-bills and marketable securities	Fixed	19,250	11,800	17,100	29,250	4,000	-	-	**81,400**	**1,225**
Term deposits with banks		7,000	32,900	20,000	-	-	-	-	**59,900**	**2**
Loans and advances to customers	Fixed	16,237	34,827	53,318	97,444	96,725	113,189	16,946	**428,686**	**(19,075)**
	Variable	3,683	-	-	-	-	-	-	**3,683**	**-**
Other assets		-	-	-	-	-	-	-	**-**	**18,221**
Total assets		**89,604**	**79,527**	**90,418**	**126,694**	**100,725**	**113,189**	**16,946**	**617,103**	**161,509**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	**-**	**282**
Current accounts from customers		40,212	8,030	12,046	24,091	48,182	68,257	-	**200,818**	**300,615**
Deposits from customers		21,565	21,586	25,255	59,644	16,831	14,382	996	**160,259**	**1,332**
Subordinated debt	Fixed	-	-	-	-	-	-	-	**-**	**-**
	Variable	-	14,545	-	-	-	-	-	**14,545**	**280**
Other liabilities and equity		-	-	-	-	-	-	-	**-**	**100,481**
Total liabilities and equity		**61,777**	**44,161**	**37,301**	**83,735**	**65,013**	**82,639**	**996**	**375,622**	**402,990**
IR sensitivity gap- open position		**27,827**	**35,366**	**53,117**	**42,959**	**35,712**	**30,550**	**15,950**	**241,481**	**(241,481)**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

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)**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap

At 31 December 2014		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		-	-	-	-	-	-	**-**	**1,466**
Current accounts with banks		2,992	-	-	-	-	-	**2,992**	**260**
T-bills and marketable securities	Fixed	-	12,355	-	-	-	-	**12,355**	**15**
Term deposits with banks		-	3,295	-	-	-	-	**3,295**	**0**
Loans and advances to customers	Fixed	5	1,371	263	129	115	374	**2,257**	**(39)**
Other assets		-	-	-	-	-	-	**-**	**540**
Total assets		**2,997**	**17,021**	**263**	**129**	**115**	**374**	**20,899**	**2,242**
Current accounts from customers		1,786	357	536	1,072	2,143	3,036	**8,930**	**13,459**
Deposits from customers		172	255	78	282	2	-	**789**	**9**
Other liabilities		-	-	-	-	-	-	**-**	**(46)**
Total liabilities		**1,958**	**612**	**614**	**1,354**	**2,145**	**3,036**	**9,719**	**13,422**
IR sensitivity gap- open position		**1,039**	**16,409**	**(351)**	**(1,225)**	**(2,030)**	**(2,662)**	**11,180**	**(11,180)**

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 and equity		**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)**

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters.

Considering EUR and USD denominated asset and liability structures as at 31 December 2014 and 2013, and assuming a parallel shift of interest rate for +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent 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:	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
EUR	179	130	1,973	825	(5,796)	(5,997)
USD	32	63	283	375	137	246

(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 the assets with liquidity 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: first assumptions which are recommended by ProCredit Holding and which are based on German Liquidity Regulation, and second assumptions are derived from historical analysis of customer deposits and their withdrawal pattern.

The Bank aims to keep all times the expected cumulative maturity gap positive. Should the expected cumulative maturity gap be not 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 ('off-BS') positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank Guarantee´s and Letter of Credit´s 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 remaining maturities,
- Liabilities 1 – are liabilities which contractually are due on demand,
- Liabilities 1-S – are liabilities that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2014	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	47,950	-	-	-	-	47,950
Reserves with the Central Bank	42,767	-	-	-	-	42,767
Current accounts with the Central Bank	71,334	-	-	-	-	71,334
Current accounts with banks	47,237	-	-	-	-	47,237
Unused credit commitments	25,000	-	-	-	-	25,000
T-bills and marketable securities	19,260	24,165	17,164	29,590	4,005	94,184
Assets 1-S						
Term deposits with banks	7,000	36,197	20,000	-	-	63,197
Loans and advances to customers	25,385	32,785	51,604	90,552	243,416	443,742
Total Assets	**285,933**	**93,147**	**88,768**	**120,142**	**247,421**	**835,411**
Contractual Liabilities						
Liabilities 1						
Due to banks *(due daily)*	282	-	-	-	-	282
Due to customers (due daily)	518,848	-	-	-	-	518,848
Contingent liabilities from guarantees	26,608	-	-	-	-	26,608
Unused credit commitments	47,030	-	-	-	-	47,030
Liabilities 1-S						
Due to customers	21,046	21,258	24,844	60,684	33,230	161,062
Subordinated debt	-	-	-	-	14,545	14,545
Total Contractual Liabilities	**613,814**	**21,258**	**24,844**	**60,684**	**47,775**	**768,375**
Periodic Contractual Liquidity Gap	**(327,881)**	**71,889**	**63,924**	**59,458**	**199,646**	
Cumulative Contractual Liquidity Gap	**(327,881)**	**(255,992)**	**(192,068)**	**(132,610)**	**67,036**	
Expected Liabilities						
Liabilities 1						
Due to banks *(due daily)*	141	141	-	-	-	282
Due to customers *(due daily)*	103,770	20,754	31,131	62,261	300,932	518,848
Contingent liabilities from guarantees	1,294	-	-	-	-	1,294
Unused credit commitments	9,390	-	-	-	-	9,390
Liabilities 1-S						
Due to customers	21,046	21,258	24,844	60,684	33,230	161,062
Subordinated debt	-	-	-	-	14,545	14,545
Total Expected Liabilities	**135,641**	**42,153**	**55,975**	**122,945**	**348,707**	**705,421**
Periodic Expected Liquidity Gap	**150,292**	**50,994**	**32,793**	**(2,803)**	**(101,286)**	**129,990**
Cumulative Expected Liquidity Gap	**150,292**	**201,286**	**234,079**	**231,276**	**129,990**	

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2013	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	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**	

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

The 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 2014, 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.

(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

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

As at 31 December 2014 and 2013 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2014	**2013**
Tier 1 capital		
Share capital and share premium	65,550	60,550
Reserves	511	511
Retained earnings	26,215	21,161
less: Intangible assets	(808)	(1,129)
less: Credits to bank related persons	(7,850)	(7,135)
less: Deferred tax assets	(8)	(30)
Total qualifying Tier 1 capital	**83,610**	**73,928**
Tier 2 capital		
Subordinated liability	13,136	24,545
Provisions for loan losses (limited to 1.25% of RWA)	6,069	5,912
Total qualifying Tier 2 capital	**19,205**	**30,457**
Total regulatory capital	**102,815**	**104,385**
Risk-weighted assets:		
On-balance sheet	464,374	455,270
Off-balance sheet	21,122	17,709
Risk assets for operational risk	64,427	65,514
Total risk-weighted assets	**549,923**	**538,493**
Tier I capital adequacy ratio	**15.20%**	**13.73%**
Tier II capital adequacy ratio	**18.70%**	**19.38%**

Starting from 2009, the Bank calculates and monitor capital adequacy in accordance with Basel II. Therefore, the Bank marks out capital for credit risk, and for market and operational risk also. As at 31 December 2014 and 2013 the Bank's capital adequacy ratios measured in accordance with Basel II were:

- Tier I capital adequacy ratio: 13.30% (2013: 14.31%)
- Total capital ratio: 16.49% (2013: 19.74%).

5. Financial risk management (continued)

(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 109.7 million as of December 2014 (2013: EUR 119.6 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 65.82 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 2014. 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 that 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.

(All amounts expressed in EUR thousand, unless otherwise stated)

6. Fair values of financial instruments (continued)

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

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

Available-for-sale financial assets (debt)	Total Fair Value	Level 1	Level 2	Level 3
31 December 2014	94,971	81,613	13,358	-
31 December 2013	170,070	161,823	8,247	-

(c) Financial instruments not measured at fair value

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

	Carrying value 2014	Fair value Level 2 2014	Fair value Level 3 2014	Carrying value 2013	Fair value Level 2 2013	Fair value Level 3 2013
Financial Assets						
Cash and balances with the Central Bank	162,051	162,051	-	96,849	96,849	-
Loans and advances to banks	110,434	110,434	-	62,019	62,019	-
Loans and advances to customers	415,512	-	406,971	440,205	-	420,992
Other financial assets	2,716	2,716	-	1,608	1,608	-
Financial Liabilities						
Due to banks	282	282	-	450	450	-
Customers' deposits	686,211	523,878	161,787	665,575	388,571	270,858
Subordinated liabilities	14,825	-	14,825	25,013	-	25,013
Other financial liabilities	2,447	2,447	-	1,758	1,758	-

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 commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

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

(All amounts expressed in EUR thousand, unless otherwise stated)

7. Net interest income

	2014	2013
Interest income		
Loans and advances to customers	54,684	68,111
Loans and advances to banks	185	155
Available-for-sale financial assets	199	98
Other	270	30
Total interest income	**55,338**	**68,394**
Interest expense		
Due to customers	7,079	13,332
Borrowed funds	1,889	1,988
Other	155	153
Total interest expense	**9,123**	**15,473**
Net interest income	**46,215**	**52,921**

Included within interest income from loans and advances to customers for the year ended 31 December 2014 is a total of EUR 1,205 thousand (2013: EUR 1,597 thousand) relating to impaired financial assets and unwinding of the discount on the impairment for loans of EUR 2,681 thousand (2013: EUR 2,537 thousand).

8. Net fee and commission income

	2014	2013
Fee and commission income		
Payment transfers and transactions	4,121	3,964
Letters of credit and guarantees	738	540
Account maintenance fees	1,387	1,387
Debit and credit cards	2,867	3,103
Other fees and commissions	1,019	944
Total fee and commission income	**10,132**	**9,938**
Fee and commission expense		
IT provider and related services	1,166	1,106
Fees and commissions on bank accounts	627	294
Other fees to banks	268	522
Fees and expenses related to cards	492	542
Other fees and commissions	1,216	836
Total fee and commission expense	**3,769**	**3,300**
Net fee and commission income	**6,363**	**6,638**

(All amounts expressed in EUR thousand, unless otherwise stated)

9. Administrative and other operating expenses

	2014	2013
Personnel expenses (see below)	10,085	11,624
Depreciation and amortisation (see notes 15 and 16)	3,331	3,455
Rental expenses	2,294	2,497
Maintenance and repairs	1,686	1,244
Advertising and promotion costs	893	1,210
Consulting and legal fees	862	1,052
Security services	669	997
Expenses paid to ProCredit Holding	808	876
Utilities	567	832
Training costs	718	763
Deposit insurance fund	737	704
Communication (telephone, on-line connection)	549	747
Transport (fuel, maintenance)	313	391
Office supplies	304	507
Royalties on software	367	263
Provision for guarantees given	252	257
Other expenses	2,061	1,189
	26,496	**28,608**

At 31 December 2014 the Bank had 709 employees (2013: 869 employees).

	2014	2013
Wages and salaries	9,002	10,290
Pension contribution	447	548
Fringe benefits	314	437
Other compensations	322	349
	10,085	**11,624**

(All amounts expressed in EUR thousand, unless otherwise stated)

10. Income taxes

(a) Amounts recognised in profit or loss

	2014	2013
Current tax expenses	2,829	1,698
Deferred tax income	(713)	(157)
Income tax expense	**2,116**	**1,541**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2013: 10%).

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

	2014			2013		
	Before tax	Tax benefit	Net of tax	Before tax	Tax expense	Net of tax
Available-for-sale investments	227	(22)	205	(50)	5	(45)
Total (see Note 24)	**227**	**(22)**	**205**	**(50)**	**5**	**(45)**

(c) Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2013: 10%) to current income tax expense:

	Tax rate	2014	Tax rate	2013
Profit before tax		16,669		**17,619**
Tax using the corporate tax rate	10.0%	1,667	10.0%	1,762
Non-deductible expenses	0.1%	21	0.1%	25
Additional expenses due to different provision for loans and accrued interest from loans based on Central Bank of Kosovo rules	6.8%	1,141	(0.5%)	(89)
	17.0%	**2,829**	**9.5%**	**1,698**

Income tax payable at 31 December 2014 is EUR 371 thousand (31 December 2013: prepaid income tax of EUR 1,125 thousand).

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2013: 10%).

	2014	Movements in profit or loss	Movements in OCI	2013
Deferred tax assets				
Available-for-sale investments	8	-	(22)	30
Accrued interest	175	(230)	-	405
	183	**(230)**	**(22)**	**435**
Deferred tax liabilities				
Depreciation for property and equipment	(3)	35	-	(38)
Provisions for loan impairment	(263)	1,018	-	(1,281)
Accrued interest from loans	(110)	(110)	-	-
	(376)	**943**	**-**	**(1,319)**
Net deferred tax liabilities	**(193)**	**713**	**(22)**	**(884)**

(All amounts expressed in EUR thousand, unless otherwise stated)

11. Cash and balances with the Central Banks

	2014	**2013**
Cash on hand	47,950	43,181
Amounts held at the CBK		
Current accounts	69,045	13,905
Statutory reserves	42,767	39,254
Kosovo Government Securities (up to 3 months)	300	310
Balance with Deutche Bundesbank	1,989	199
	162,051	**96,849**

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 2014 and 2013 are presented as follows:

	2014	**2013**
Cash and balances with the Central Banks	162,051	96,849
Statutory reserves	(42,767)	(39,254)
Loans and advances to banks with maturities of three months or less (note 12)	90,431	62,019
	209,715	**119,614**

12. Loans and advances to banks

	2014	**2013**
Current accounts	47,237	40,867
Time deposits with banks	63,197	21,152
	110,434	**62,019**

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

- Deposits in EUR: 0.25% to 0.02% p.a. (2013: from 0.20 % to 0.17% p.a.) and
- Deposits in USD: 0.31% to 0.10% p.a. (2013: from 0.20% to 0.10% p.a.).

(All amounts expressed in EUR thousand, unless otherwise stated)

13. Loans and advances to customers

	2014	**2013**
Loans to customers	401,958	427,317
Overdrafts	40,831	42,945
Credit cards	953	946
Deferred disbursement fees	(1,311)	(2,322)
Accrued interest	4,395	5,483
	446,826	**474,369**
Impairment allowance	(31,314)	(34,164)
	415,512	**440,205**

	2014			**2013**		
	Gross amount	**Impairment allowance**	**Net amount**	**Gross amount**	**Impairment allowance**	**Net amount**
Retail customers:						
Overdrafts	3,442	(193)	3,249	3,095	(191)	2,904
Credit cards	956	(125)	831	950	(142)	808
Consumer loans	6,174	(173)	6,001	7,714	(261)	7,453
Home improvement	123,519	(3,389)	120,130	114,664	(2,823)	111,841
Corporate customers:						
Overdrafts	37,685	(1,776)	35,909	40,102	(1,655)	38,447
Up to EUR 150 thousand	168,404	(14,954)	153,450	194,727	(15,889)	178,838
Above EUR 150 thousand	106,646	(10,704)	95,942	113,117	(13,203)	99,914
	446,826	**(31,314)**	**415,512**	**474,369**	**(34,164)**	**440,205**

The movement in the provision for loan at 31 December 2014 was as follows:

	2014	**2013**
At 1 January	34,164	29,458
Charge for the year	11,478	15,640
Unwinding of discount	(2,681)	(2,537)
Loans written-off	(11,647)	(8,397)
At 31 December	**31,314**	**34,164**

At 31 December 2014, the loan portfolio includes loans to employees of the Bank of EUR 2,924 thousand (31 December 2013: EUR 4,254 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

	2014	**2013**
Shares in companies situated in OECD countries	24	20
Debt securities	94,184	168,211
Accrued interest	787	1,859
Total	**94,995**	**170,090**

(All amounts expressed in EUR thousand, unless otherwise stated)

15. Intangible assets

	Software
Cost	
At 1 January 2013	**4,519**
Additions	649
At 31 December 2013	**5,168**
Additions	441
At 31 December 2014	**5,609**
Accumulated amortization	
At 1 January 2013	**3,377**
Charge for the year	662
At 31 December 2013	**4,039**
Charge for the year	762
At 31 December 2014	**4,801**
Net carrying amount	
At 31 December 2013	**1,129**
At 31 December 2014	**808**

(All amounts expressed in EUR thousand, unless otherwise stated)

16. Property and equipment

	Land	Buildings	Assets under construction	Furniture and fixtures	Electronic equipment	Leasehold improvements	Total
Cost							
At 1 January 2013	**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**
Additions	-	69	546	20	889	257	1,781
Disposals	-	-	(1,487)	(50)	(1,286)	(220)	(3,043)
At 31 December 2014	**4,907**	**6,703**	**75**	**1,544**	**17,627**	**4,213**	**35,069**
Accumulated depreciation							
At 1 January 2013	**-**	**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**
Charge for the year	-	349	-	123	1,866	231	2,569
Disposals	-	-	-	(50)	(1,084)	(137)	(1,271)
At 31 December 2014	**-**	**2,257**	**-**	**1,445**	**14,164**	**2,755**	**20,621**
Net carrying value							
At 31 December 2013	**4,907**	**4,726**	**1,016**	**202**	**4,642**	**1,515**	**17,008**
At 31 December 2014	**4,907**	**4,446**	**75**	**99**	**3,463**	**1,458**	**14,448**

(All amounts expressed in EUR thousand, unless otherwise stated)

17. Other financial assets

	2014	2013
Accrued account maintenance fee	346	155
Security deposits	515	453
Receivables from financial institutions	937	985
Assets held for sale	911	-
Other financial assets	7	15
	2,716	**1,608**

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

The asset held for sale includes a building in Prizren which was reclassified from assets under construction to held for sale during 2014.

18. Other assets

	2014	2013
Prepaid expenses	297	432
Other assets	492	646
	789	**1,078**

19. Due to banks

	2014	2013
Current accounts	282	450
	282	**450**

20. Due to customers

	2014	2013
Current accounts	315,278	233,958
Saving accounts	208,992	155,201
Term deposits	154,181	264,609
Other customer accounts	1,479	1,341
Interest accrued	6,281	10,466
	686,211	**665,575**

Included in customer deposits (Current, Saving and Term deposits) is an amount of EUR 6,526 thousand (2013: EUR 8,294 thousand) representing blocked deposits provided as collateral for loans, guarantees, letters of credit and payment orders on behalf of customers.

The published annual interest rates at 31 December 2014 and 2013 were as follows:

	2014	2013
Saving accounts	0.25%	1.50%
Time deposits:		
Six months	0.05%	1.20%-1.50%
One year	0.10%	1.50%-2.80%
Two years	0.20%	1.60%-3.10%
Three years	0.70%	1.70%-3.20%
Four years	1.00%	1.80%-3.40%
Five years	1.50%	2.00%-4.00%

Current accounts generally do not bear interest.

(All amounts expressed in EUR thousand, unless otherwise stated)

21. Subordinated liabilities

	2014	2013
Subordinated debt	14,545	17,045
Subordinated promissory notes	-	7,500
Deferred front-end-fees	(14)	(59)
Interest accrued	294	527
	14,825	**25,013**

Subordinated debt represents facilities with a total amount of EUR 14,545 thousand (2013: EUR 17,045 thousand). EUR 7,045 thousand out of this total (2013: EUR 17,045 thousand) were obtained from the European Fund for Southeast Europe ('EFSE'), under a subordinated term loan agreement signed in June 2009 and maturity of 10 years, with the purpose of providing funding for the Bank's lending activities. EUR 7,500 thousand (2013: nil) were obtained from ProCredit Holding AG & CO.KGaA under a subordinated loan agreement signed in September 2014. The interest accrued as at 31 December 2014 was EUR 167 thousand (2013:Nil).

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

22. Other financial liabilities

	2014	2013
Accrued expenses	153	212
Suppliers payable	660	707
Due to related parties	191	240
Pension contribution payable to Kosovo Pension Fund	103	120
Other provisions	1,340	479
	2,447	**1,758**

23. Other liabilities

	2014	2013
Provision for untaken vacation	222	277
Provision for litigation cases	345	160
Provision for guarantees	323	303
Other	526	441
	1,416	**1,181**

(All amounts expressed in EUR thousand, unless otherwise stated)

24. Shareholder's equity and reserves

Share capital

At 31 December 2014 the authorised share capital comprised 12,269,242 ordinary shares (2013: 11,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	2014			2013		
	Number of shares	**EUR**	**%**	**Number of shares**	**EUR**	**%**
ProCredit Holding	12,269,242	61,346,210	100	11,269,242	56,346,210	100
	12,269,242	**61,346,210**	**100**	**11,269,242**	**56,346,210**	**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 (2013: EUR 4,204 thousand) represents the excess of contribution 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:

	2014	**2013**
Balance at 1 January	(269)	(224)
Revaluation loss reserve for AFS investments	(417)	(501)
Revaluation gain reserve for AFS investments	644	451
Deferred taxes on Fair value reserve	(22)	5
Balance at 31 December	**(64)**	**(269)**

Dividends paid

Dividends of EUR 20 million (2013: EUR 25 million) were approved in April 2014.

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 institutions including ProCredit Bank Kosovo and of ProCredit Academies in Germany, Macedonia and Colombia that provide training and professional development to the staff of 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: 18.4% (2013: 17.7%);
- KfW Development Bank: 13.6% (2013: 13.6%);
- DOEN Foundation: 13.3% (2013: 13.3%); and
- International Finance Corporation (IFC): 10.3% (2013: 10.3%).

(All amounts expressed in EUR thousand, unless otherwise stated)

25. Related party transactions (continued)

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 2014 and 2013 are as follows:

	2014	2013
Assets receivable from:		
Loans and advances to other ProCredit banks	7,673	6,945
Financial assets from other ProCredit banks	95	64
Financial assets from Quipu GmbH	49	70
Other financial assets	20	162
	7,837	**7,241**
Liabilities due to:		
Due to other ProCredit banks	144	240
Financial liabilities to other ProCredit banks	180	240
Due to ProCredit Holding AG & Co. KGaA	134	122
Due to Quipu GmbH	246	301
Subordinated debt from ProCredit Holding AG & Co. KGaA	7,667	-
	8,371	**903**

At 31 December 2014, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2013: EUR 15,000 thousand), maturing on 11 March 2015 for purposes of meeting general financing needs.

	2014	2013
Interest income from:		
ProCredit Academies	-	5
Interest income from ProCredit banks	8	5
Other income from ProCredit Group	3	11
	11	**21**
Expenses:		
The Parent: Interest expenses for subordinated debt	167	-
The Parent: Other administrative expenses	699	779
The Parent and Academies: Training expenses	527	498
The Parent: Commitment fees	152	151
The Parent: IT services	4	5
Quipu GmbH: IT services	657	309
Quipu GmbH: Card processing fees	1,074	1,109
	3,280	**2,851**

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 introduction of green loans for business clients. Expenses incurred and paid during the year 2013 amount to EUR 219 thousand, including taxes. No such expenses were incurred in 2014.

	2014	2013
Key management remuneration:		
Salaries	236	360
Pension contribution	10	11
Personal income tax	21	33
	267	**404**

(All amounts expressed in EUR thousand, unless otherwise stated)

26. Commitments and contingencies

	2014	**2013**
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	47,030	43,505
International guarantees	11,497	7,287
Local guarantee	14,812	12,577
Letters of credit	299	224
Less: Provision recognised as liabilities	(323)	(303)
	73,315	**63,290**
Credit commitments		
Unused credit card facilities	4,248	4,797
Unused overdraft limits approved	35,224	30,666
Non-disbursed loans tranches	3,682	3,823
Unused portion of credit lines	3,876	4,219
	47,030	**43,505**

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 2014.

Operating lease commitments

The Bank has entered into commercial property leases for its offices. At 31 December 2014 and 2013, the Bank's future minimum rentals payable under non-cancellable operating leases were in the amount of EUR 175 thousand (2013: EUR 186 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 reporting date have occurred which require disclosure in the financial statements.