ProCredit Bank

Kosovo

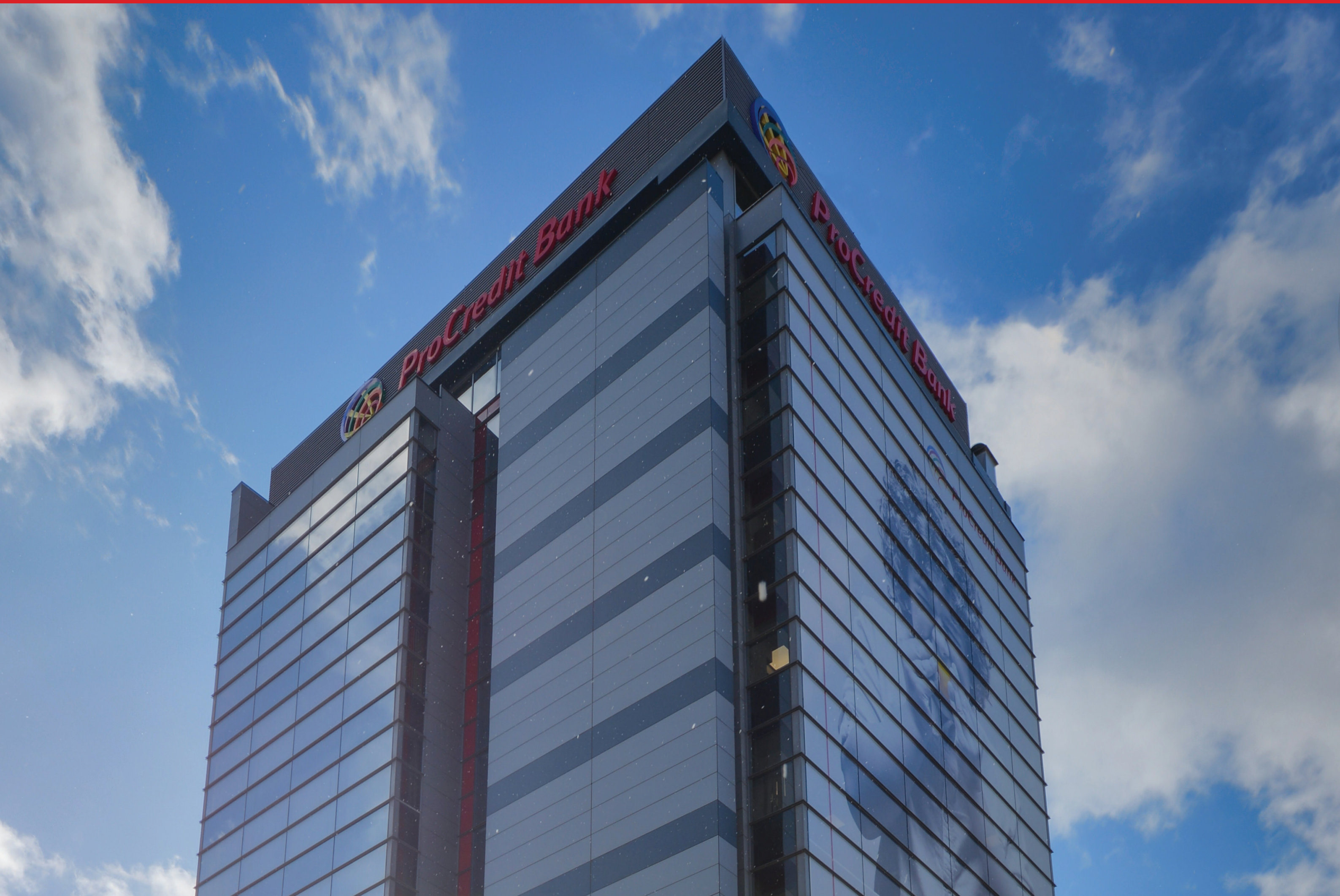
Annual Report 2019

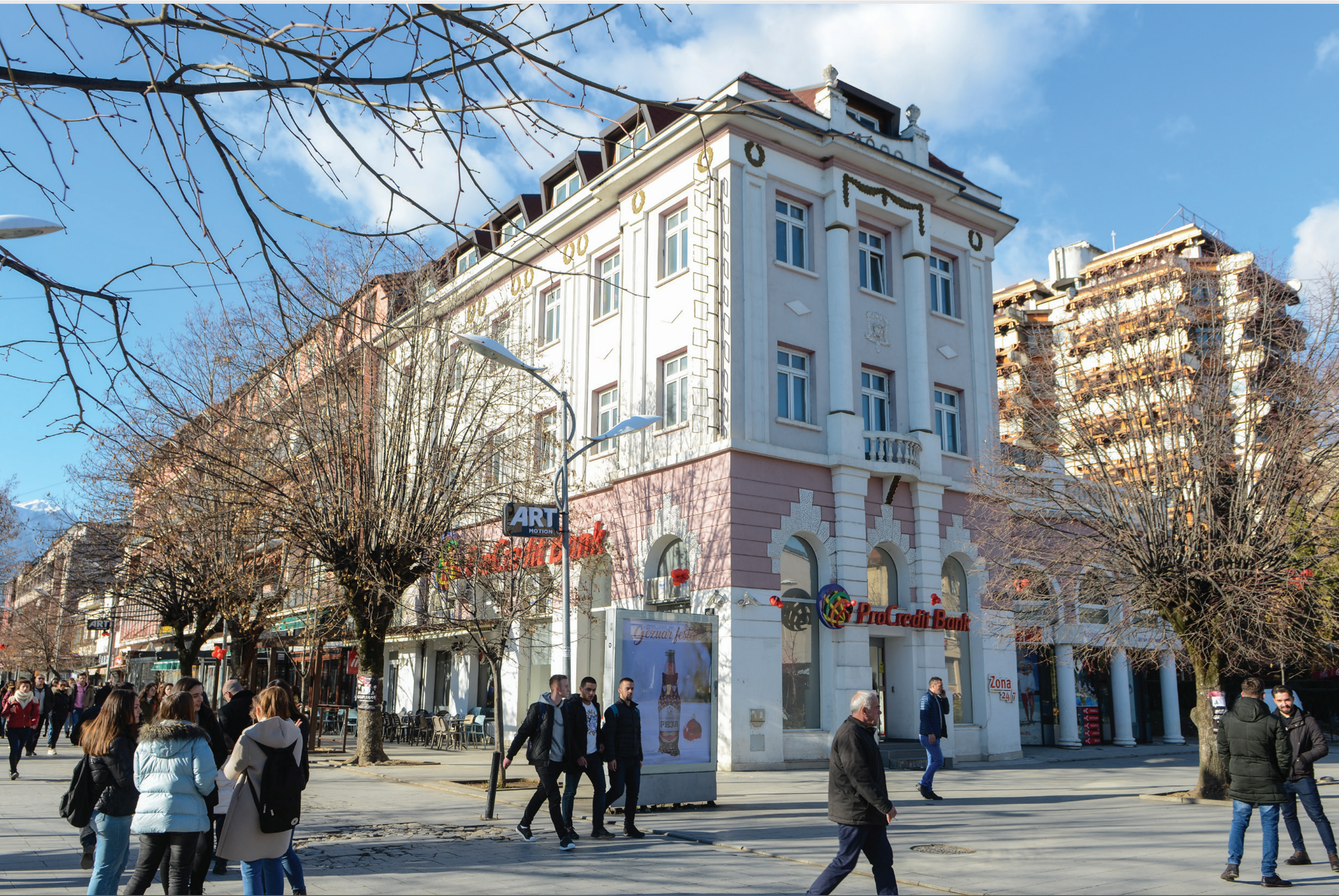
Content:

Mission statement

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

We focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility among business clients as well as private individuals. Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.




ART
ProCredit Bank

Business ethics

Part of the general mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference – through the target group we serve, the quality of our financial services, and the business ethics upon which we base our actions. The following principles guide the operations of the ProCredit institutions:

Transparency: We provide our clients, the public and our employees with transparent information. For example, we ensure that customers fully understand the terms of the contracts they conclude with us. Furthermore, we engage in financial education in order to raise public awareness of the dangers of intransparent financial offers.

A culture of open communication: We communicate openly, fairly and constructively with one another. We deal with conflicts at work in a professional manner, working together to find a solution.

Social responsibility and tolerance: We offer our clients sound, well-founded advice. Before offering loans to them, we assess their financial situation, their business potential and their repayment capacity in order to avoid overindebting them and to provide them with the financial services most appropriate to their situation. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs. We also ensure that compliance with our ethical business practices is considered when reviewing loan applications. No loans are issued to enterprises or individuals if it is suspected that they are involved in any unsafe, environmentally harmful or morally objectionable activities or forms of labour.

High professional standards: Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.

Personal integrity and commitment: Complete honesty is required of all employees in the ProCredit group at all times and any breaches of this principle are dealt with swiftly and rigorously. These principles represent the backbone of our corporate culture and are actively applied in our day-to-day operations. They are reflected in the ProCredit Code of Conduct, which translates the group's principles into practical guidelines for our staff.

Environmental standards

ProCredit Bank is a development-oriented bank that performs responsible banking activities. Part of this responsibility is to act in accordance with predefined social, ethical and environmental standards.

A responsible approach to environmental protection is an important part of ProCredit Bank's responsible business and social model and an integrated value in our banking philosophy.

Climate change is an issue that requires urgent treatment, and taking measures to reduce pollution and protect the environment is everyone's responsibility. Through the actions and activities of its Environmental Committee, ProCredit Bank is committed to implementing policies that advance the bank's approach to managing the environmental impact of the institution itself, as well as that of our customers.

ProCredit Bank's environmental standards aim to reduce the environmental impact of our activities, integrate and implement environmentally friendly procedures in a comprehensive operating system, enhance the direct impact of the bank on energy saving, decrease the release of carbon dioxide, etc. ProCredit Bank in Kosovo continues to play an important role in raising environmental awareness among its employees, customers, and the general public, as well as in supporting civic initiatives for environmental protection.

Management

Eriola Bibolli
Chief Executive Officer

Bejte Cakaj
Management Board Member

Visar Pacarada
Management Board Member

Nora Raci
Management Board Member

Basic information about ProCredit Bank

Shareholder	The amount of value nominal (EUR)	Number of shares	in %
ProCredit Holding	61,346,210	12,269,242	100
Total	61,346,210	12,269,242	100

ProCredit Holding is the parent company to a global group of banks and was founded as Internationale Micro Investitionen AG (IMI) in 1998 by the pioneering development finance consultancy company Zeitinger Invest GmbH.

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for small and medium-sized businesses as well as the general population in their countries of operation. It ensures that ProCredit corporate values, international best practice procedures and Basel II risk management principles are implemented group-wide in line with standards also set by the German supervisory authorities.

Zeitinger Invest GmbH is the major shareholder and the strategic investor in ProCredit Holding. Zeitinger Invest GmbH (and its forerunner IPC) has been the driving force behind the ProCredit group since the founding of the banks.

ProCredit Holding is a public-private partnership. In addition to Zeitinger Invest GmbH and ProCredit Staff Invest, other private shareholders of ProCredit Holding include: the Dutch DOEN Foundation, the American TIAA-CREF Pension Fund, the American Omidyar-Tufts Microfinance Fund and the Swiss company responsAbility Investments. ProCredit Holding's public shareholders include: KfW (the German state-owned development bank), IFC (a development institution focused on the private sector in emerging markets and a member of the World Bank Group), FMO (Dutch Development Bank), BIO (Belgian Investment Company for Developing Countries) and Proparco (French Investment and Promotion Company for Economic Cooperation).

The legal form of ProCredit Holding is a KGaA (Kommanditgesellschaft auf Aktien, or in English: limited liability partnership). This is a legal form often used in Germany, and can essentially be considered as a joint stock company, in which the role of the board of directors is taken over by a general partner and in which the general partner has the rights of consent on certain shareholder decisions. In the case of ProCredit Holding, the general partner is a small separate company owned by the main shareholders of ProCredit Holding AG & Co. KGaA, Zeitinger Invest GmbH, ProCredit Staff Invest, DOEN, KfW and IFC. The KGaA structure will allow ProCredit Holding to increase its capital in the future without reducing the impact of major shareholders in achieving all goals in business development and success.

Key business segments

Business clients

The focus of our bank remains being a “Hausbank” for small and medium-sized enterprises, because we are convinced that these businesses create the largest number of jobs and make a significant contribution to the economies in which they operate. The bank’s approach to managing the relationship with its business clients, as well as the professionalism of our Business Client Advisers, enables us to understand the needs of our clients, their business and their financial capacity, and thus puts us in a position to offer appropriate financial services in a responsible manner.

In line with the group’s strategy, the bank has developed the business concept for its Hausbank clients, which means that the bank not only finances loans and other financial products for business clients but also offers a wide range of modern financial services which small and medium-sized businesses need to expand.

These services include our advanced electronic banking platform, through which business clients can carry out domestic and international transfers quickly and securely at low cost, make payroll and mass payments, pay bills, make customs payments, manage credit and credit lines; make card transactions at POS terminals; use commercial finance services; and use our 24/7 Zones, at which business clients can withdraw funds around the clock, deposit their daily turnover in cash-in ATMs in amounts up to EUR 10,000, and deposit larger amounts in the bank’s drop boxes.

Our banking services help businesses expand and operate more efficiently and sustainably. The bank aims to have long-term partnerships with small and medium-sized businesses and monitor their development. These elements, combined with the specialised experience of our Business Client Advisers, form the foundation of our successful business model.

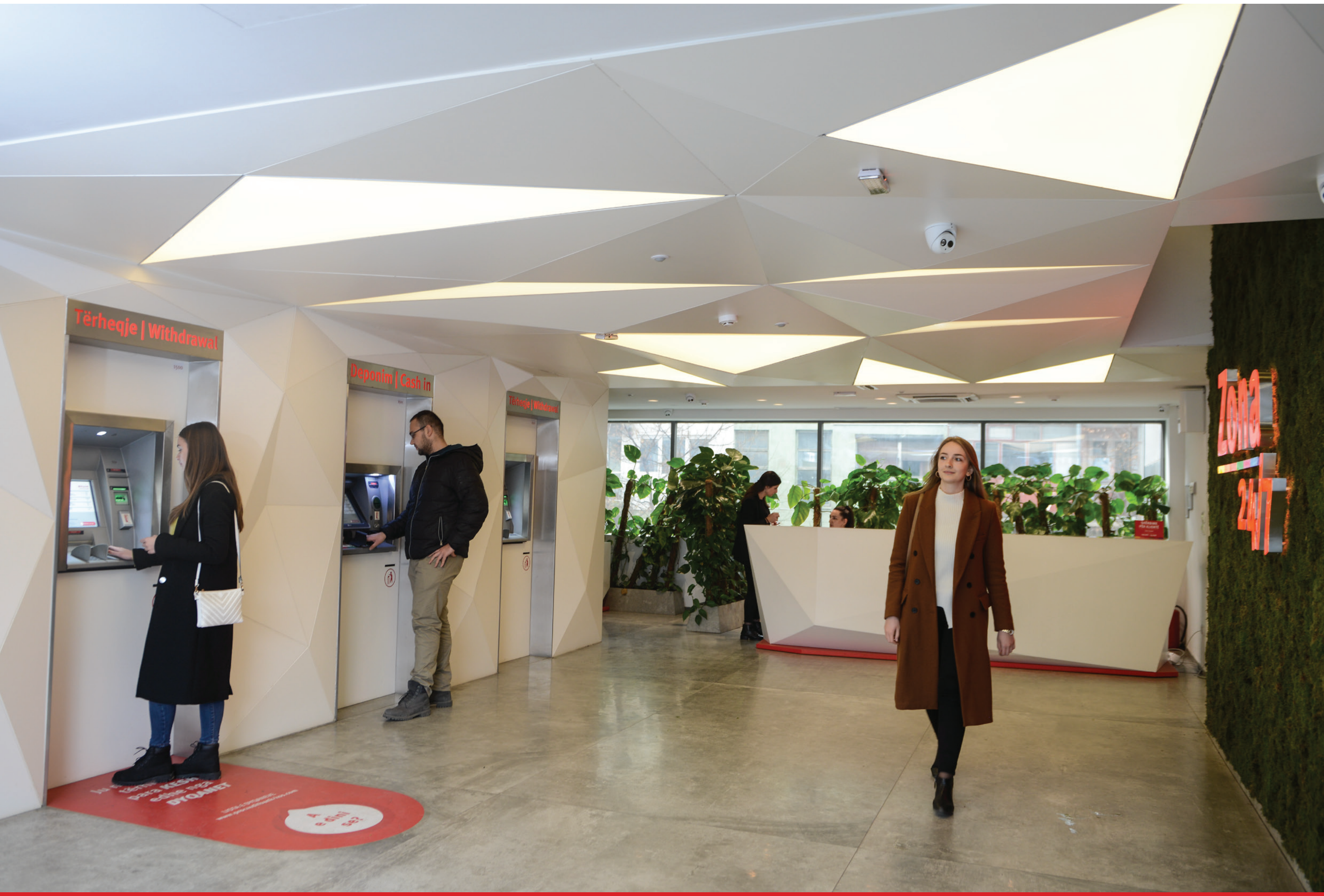
We have continued to place special emphasis on promoting other banking services that cater to our clients' needs. To meet the needs of business clients, we have, throughout the entire year, worked to develop and improve the services at our 24/7 Zones in order to continue to provide innovative, fast and secure banking. The unique feature of these zones is that they are equipped with high-tech equipment that offers flexibility and high efficiency to business clients so that they are not limited by the working hours of the bank. In these spaces, business clients can withdraw funds at any time of day or night, deposit their daily turnover in cash-in ATMs, deposit larger amounts in the bank's drop boxes, and deposit coins in special ATMs. Also, the bank has adapted and advanced its e-banking platform in line with the needs of small and medium-sized businesses and the latest technological developments.

During 2019, the bank focused intently on stimulating and promoting investment loans for all small and medium-sized businesses with special emphasis on manufacturing companies, thus achieving the highest market share for loans in the manufacturing sector. The bank has especially supported businesses with a financial capacity over EUR 30,000, and the increase in the business portfolio during 2019 was over EUR 23 million, in which the total volume of credit exposures dedicated to businesses at the end of the year reached EUR 406.6 million.

As a bank that is committed to responsible banking practices, ProCredit places great importance on operating in compliance with environmental standards. The bank has continued to support its clients who have invested through "green" loans, which refers to all financial services related to investments in energy-saving measures, renewable energy sources, and other eco-friendly measures. During 2019, the goal was to motivate business clients to undertake such investments, with particular emphasis on solar panels, advanced manufacturing machinery and measures aimed at reducing water or air pollution. The green loan portfolio for business clients represents 16.4% of the total portfolio dedicated to financing these clients.

In addition, the bank has provided savings accounts for its business clients, thus enabling them to transfer their additional liquidity to interest-bearing accounts with flexible terms. The volume of deposits of business clients this year has reached over EUR 137 million, resulting in an annual increase in deposits of EUR 10.4 million.
The bank's Business Client Advisers play a key role in implementing the bank's strategy and contribute to the development of long-term professional relationships with business clients. As their title suggests, Business Client Advisers do not merely provide banking services to small and medium-sized business clients, but also arrange meetings with them and offer customised advice. The bank continuously invests in the training and professional development of its Business Client Advisers.

The bank will continue to adjust and develop banking services for businesses in order to help them develop and achieve stability. In addition to supporting short- and medium-term business investments, in 2020 we will continue to promote long-term investments, especially to support manufacturing businesses, and encourage investments in ecologically-friendly measures. Also, the bank will continue to provide high-quality services at our 24/7 Zones and develop the e-banking platform in order to provide our clients with more efficient means of doing business. These elements, coupled with the specialised experience of business clients, constitute the foundation of our model of a successful business. This is in line with our aim of being a Hausbank for small and medium business clients and establishing long-term cooperation with them.



Private clients

In 2019 ProCredit Bank managed to fully implement and fully position itself as a direct digital bank in terms of services to its private clients. In order to further bolster this positioning, the bank has continued to invest in its digital platforms, which enable its clients to easily and conveniently access their finances.

In the early part of the year, the bank launched its mobile application, enabling clients to carry out financial transactions over their phones from the comfort of their home, office or wherever they happen to be. Furthermore, the mobile application allows clients to easily manage their savings and card limits.

ProCredit has continuously supported the investment plans of its private clients, with emphasis on financing the purchase or construction of homes. In 2019 the bank provided clients with easy access to financial instruments aimed at improving their housing conditions. By the end of the year, the bank had managed to increase the share of housing loans in its portfolio from 41% in 2018 to 54%.

In terms of deposits, ProCredit Bank's goal is to increase financial education and promote a culture of saving among its private clients. In 2019, bank deposits were in line with business planning, and the deposit portfolio maintained a well-diversified structure. The bank closed the year with a total of EUR 446 million in deposits.

Direct banking

In 2019, the bank finalised the implementation of its strategy for direct banking, which offers clients a range of services and provides them with easy access to their finances. Thanks to developments in the bank's internal network, opening an account and registering for other services through the ProCredit Bank website is extremely efficient, simple and greatly appreciated by clients, given that they are offered the flexibility to choose the time and place they want to do their banking.

At the same time, through the Contact Centre, the bank remained committed to serving clients rapidly and efficiently, mainly advising them about the bank's financial services and electronic platforms. In this way the bank ensures that it can provide fast and independent service to its private and business clients.

Risk Management

Credit risk management

The core business of ProCredit Bank is providing financial support to small and medium-sized business clients (SMEs) as well as to private clients who prioritise saving and favour long-term investments. Given the business focus of our bank, credit risk represents the most significant risk we face.

The bank's basic principles for managing credit risk are set forth in the Credit Risk Management Policy and Collateral Valuation Policy, which are based on ProCredit group policies. Taken together, these policies reflect the experience of the group's successful lending operations in developing and transition economies. These documents are in full compliance with the laws and regulations of Kosovo.

During the credit risk management process, the bank applies various principles to mitigate credit risk by intensively analysing our clients' debt capacity. This includes implementing measures to avoid overindebting them, regularly monitoring credit exposures, and closely managing problem credit exposures. Furthermore, the implementation of carefully designed and well-documented processes, the application of the four-eyes principle, building long-term relationships and maintaining regular contact with clients, as well as investing in well-trained and highly motivated staff, contribute to the mitigation of credit risk.

In addition, prudent credit portfolio analysis is one of our most important competencies. This is always critical and relevant to the bank and the group as a whole due to the very dynamic macroeconomic environments in which we operate. Furthermore, the bank applies a loan portfolio monitoring system that allows us to identify and manage potential issues at a very early stage. To ensure its efficacy, the system was adjusted to reflect International Financial Reporting Standard 9 (IFRS 9). The bank also continuously engages in analysing the markets of various economic sectors.

Moreover, credit risk is mitigated by the fact that the bank's credit portfolio is highly diversified, and any potential concentration of credit risk is thoroughly evaluated for its impact on the bank's ability to absorb it. With regard to client groups, our diverse portfolio includes small and medium-sized businesses, private clients and institutions. The approach taken by the bank also seeks to provide clients with simple, easy-to-understand services.

This leads to a high degree of transparency not only for clients, but also from a risk management perspective. Both the high degree of diversification and simple, transparent services and procedures reduce the overall risk profile of the bank.

Different methods of credit risk management are applied when dealing with different categories of clients and credit exposures. The key features of credit processes for business customers and private customers and for different categories of credit exposures are as follows: the segregation of operational tasks for small and medium credit exposures, the application of standardised and tested procedures in lending to private clients, the identification of criteria for credit decisions, and the application of different collateral requirements based on loan amounts, as well as thorough documentation of the client's credit history. Furthermore, the evaluation of collateral is conducted by external licensed companies, which decreases collateral valuation risk.

Considering that 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. The new process of monitoring, which utilises early warning indicators, enables the bank to immediately respond to any sign of potential default.

During 2019, the key indicators of loan portfolio quality continued to exhibit a positive trend, thereby reflecting the high quality of the bank's loan portfolio. The rate of non-performing loans at the end of the year stood at 1.9%, which is below the 2.0% average of the financial sector in Kosovo.

Coverage of default loan portfolio with loan loss provisions was 115%, which is considered as adequate level.

Managing counterparty risk

In order to manage liquidity risk and other operational activities, ProCredit Bank keeps a portion of its assets as liquid investments with external counterparties, including issuers of securities. In this case, the bank is exposed to the risk that these parties may not be able to meet their obligations towards the bank.

We actively manage this risk by applying the measures in our policies on counterparty risk management, liquidity management, treasury, investments, etc. These policies and other bank procedures detail the careful selection processes applied when choosing counterparties. These documents also determine the limits of exposures with counterparties as well as the types of transactions allowed, the methods of controlling and monitoring, processing rules, etc.

ProCredit Bank has a relatively low risk tolerance and does not engage in speculative trading activities. Our counterparties are mainly institutions with a high credit rating, a good reputation and a high level of financial sustainability. In principle, no exposure or agreement may be made without determining a limit in advance. These are determined by means of a thorough analysis by the bank and are reviewed on an annual basis. The bank's policies and procedures are in accordance with the regulations of the Central Bank of the Republic of Kosovo.

Managing liquidity and funding risk

Liquidity risk is the risk that the bank will not be able to meet its current and future obligations in full or in a timely manner. Funding risk is the risk that additional financing can only be obtained at very high interest rates or not at all.

ProCredit Bank manages these risks through its policies and procedures in accordance with regulatory authority requirements. In addition, controlling and reducing liquidity risk is supported by our business model. On the one hand, the loan portfolio is characterised by a large number of short- and medium-term exposures. Most of these loans are disbursed as annuity loans and are of high quality. From the perspective of liquidity risk, this leads to diversified and predictable inflows. On the other hand, deposits from clients are our main source of funding, so the use of financial market instruments is low.

As part of liquidity management, the bank has defined and continuously monitors its liquidity indicators. We also regularly conduct liquidity stress tests based on defined scenarios that help the bank analyse its liquidity positions in the event of potential internal or external shocks. The bank considers funding risk to be low, due to the diversity of client deposits and the fact that the bank continues to have access to financing from various international sources.

Managing foreign currency risk

Foreign currency risk implies the risk of negative effects on the financial results and capital adequacy of an institution caused by changes in the exchange rate. ProCredit Bank manages this type of risk in accordance with the Risk Management of Foreign Currency Policy, which is compliant with CBK regulations. Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously.

As we hold no speculative open currency positions, ProCredit Bank has a low level of exposure to currency risk. Furthermore, the limits set for these risks were never exceeded in 2019.

Managing interest rate risk

Interest rate risk arises from structural differences between the repricing maturities of assets and liabilities. This can expose the bank to the risk of potential increases in funding costs, while the return on assets might remain the same, or decrease, thus not reflecting the reduction of financing costs for a longer period, resulting in a decrease of the margin.

The bank has a relevant policy in place for this type of risk. We continuously analyse the maturity gap between assets and liabilities (based on the re-definition of prices). In addition, the bank carries out stress tests by simulating interest rate fluctuations in order to measure the influence on economic value and interest income. The results of these analyses are regularly reported to the Financial Risk and Market Management Committee, as well as to the Management Board.

Managing capital adequacy

The bank's capital adequacy is calculated on a regular basis and reported to Management via the Financial and Market Risk Management Committee, along with forecasts. This ensures future compliance with regulatory requirements on capital adequacy. Management of capital adequacy is undertaken based on the bank's policies and in accordance with the pertinent Central Bank regulations.

Managing operational risk and fraud risk

Operational risk, in accordance with the Basel Committee on Banking Supervision, is defined by the bank as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes, in particular, fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The bank implements a set of principles for operational risk and fraud risk management throughout the institution via specific policies whose principles are in compliance with regulatory requirements. The main tools used by the bank to manage operational risks are the Risk Event Database (RED), annual risk assessments, key risk indicators (KRI) and the analysis of all new services and processes using the New Risk Approval (NRA) process. The bank uses operational and fraud risk assessments to identify, assess and monitor operational risks at all levels. In accordance with Basel II, the bank continuously assesses operational risks that could arise from its services, processes and systems. Additionally, the bank's internal control system includes deficiency mitigation procedures, including necessary corrective and preventive actions. To keep information technology risks to a minimum, the bank implements procedures to safeguard its IT structure, ensure business continuity, and strengthen information security. Furthermore, the bank provides training on the Code of Conduct, as this binding document emphasises the importance of staff integrity and promotes a culture of transparency and risk awareness. The principles of operational risk, fraud and information security are addressed during regular staff and risk awareness training on all levels.

Preventing money laundering

ProCredit Bank is fully compliant with the requirements and obligations set forth in the legislation of Kosovo which are related to the prevention of money laundering, terrorist financing and other illegal acts. ProCredit Bank Kosovo, as part of the ProCredit group, in addition to local legal requirements and obligations, has also implemented the group's policy to prevent money laundering and terrorist financing as well as the group's Customer Due Diligence Policy, which meet the requirements of German and EU legislation. Moreover, ProCredit Bank applies the recommendations of local legislation and of FATF on risk assessment, by analysing the risks posed by money laundering and taking adequate preventive measures. ProCredit also complies with EU Regulation 2015/847 in order to ensure transparency in all payment transactions.

An essential component of ProCredit Bank's compliance strategy is the AML/CFT programme, with a risk-based approach. This programme consists of policies and procedures designed and implemented to prevent money laundering and terrorist financing, which ensure compliance at all levels of laws and regulations. Furthermore, the AML/CFT Unit is an independent unit within the bank's organisational structure and reports directly to the bank's Management Board. Ensuring that all bank employees are aware of the risk of money laundering and terrorist financing, along with an essentially conservative approach to risk management, are integral parts of the bank's business strategy. Therefore, in addition to officials in the AML/CFT Unit, all bank staff receive intensive training on the latest developments in the areas of money laundering prevention, terrorist financing and international sanctions. Also, auditing is carried out on an annual basis to test the overall effectiveness of the bank's AML programme.

ProCredit Bank also uses sophisticated software that enables compliance with international sanctions, monitoring transactions with high-risk countries, and detecting potentially suspicious transactions.

Staff development

The success of our business strategy and our ability to deliver valuable service to our clients relies upon the skills and attitude of our staff. We aim to build a strong, visible, sustainable institution based on a commitment to staff development and a core set of ethical principles. We aim to sustain a corporate culture which is proactive, productive and professional, as well as socially responsible, where our staff enjoy a long-term perspective and career-long professional development opportunities. A number of key initiatives are now well established:

- The six-month stipend-based Onboarding Programme for all potential new recruits
- Structured training for new employees
- The group salary structure, which foresees higher salaries for well-qualified, high-performing employees and middle managers
- Job descriptions are regularly reviewed, in the context of client category specialisation and branch infrastructure, and standardised across the bank
- A comprehensive approach to staff appraisal has been developed in order to enable personalised professional development for each employee of the bank
- In addition, through the training programmes provided to the existing staff and managers at all levels, the bank is devoted to ensuring that the necessary skills, knowledge and efficiency of all employees are at adequate levels at all times

Therefore, in 2020 the focus will continue to be on the further development of our Client Advisers and Business Client Advisers – so as to enhance our services and the advice we give to our clients – as well as on effective credit risk management. In particular, emphasis will be placed on:

- Direct banking strategy
- Combining relationship and credit risk management
- Increasing the average savings volumes of our clients
- Expanding lending to local production and green finance initiatives

ProCredit Bank Kosovo is working with ProCredit Holding to develop best practice approaches to client acquisition and service provision to underpin improved training. Specialised management and specialist training, in Frankfurt, will continue to be provided in 2020. Senior management and middle management training measures are supported by the international academy in Germany. At all training levels, the importance of personal responsibility, transparent communication, tolerance, solidarity and honesty are reinforced.

The bank piloted a reporting system to benchmark and monitor staff productivity and participation in training and will further develop the system in 2020. This is providing a clearer basis for setting performance expectations for staff and a more detailed analysis by client group. Tools to better assess long-term client loyalty, service usage and satisfaction are gradually being developed.

The ability of staff to deliver good services to clients and high productivity will continue to be supported by technological tools and efficient processes. A number of key initiatives were completed in the bank, which should continue to bring benefits in 2020:

- Direct banking
  - A more targeted approach towards private clients
  - Clients' needs and technological advancement demand a simple and standardised offer
  - The offer is accessible, complete, gives autonomy to the clients
- 24/7 Zones
- Centralisation in head office for investment loans, for better decision-making
- Reforms in the Contact Centre (transforming Contact Centre into a Virtual Branch)
- Restructuring the branch network
- Assessment and monitoring of the environmental risk of a client's business, and rejecting loan applications that are harmful to the environment

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INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of ProCredit Bank Sh.a

Opinion

We have audited the financial statements of **ProCredit Bank Sh.a (**the "Bank"), which comprise the statement of financial position as at December 31, 2019, and the statement profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year the ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other matter

The Bank has prepared a separate set of financial statements for the year ended December 31, 2019 in accordance with the Rules and Regulations of the Central Bank of the Republic of Kosovo, on which we have issued a separate auditor's report to the Shareholder and Board of Directors of the Bank dated on April 27, 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte Kosova sh.p.k.

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April 27, 2020

Engagement Partner:
Arta Limani

PROCREDIT BANK SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019
In EUR thousand

	Note	2019	2018
Interest income (effective interest method)	7	29,512	32,059
Other interest income	7	438	92
Interest expenses	7	(1,957)	(1,009)
Net interest income		**27,993**	**31,142**
Allowance for impairment loss on loans and advances to customers	13	8,453	584
Net interest income after allowance for impairment loss on loans and advances to customers		**36,446**	**31,726**
Fee and commission income	8	14,000	13,967
Fee and commission expenses	8	(5,040)	(5,173)
Gains less losses from trading and foreign exchange translation		890	702
Other operating income		2,065	2,706
Administrative and other operating expenses	9	(24,181)	(24,527)
Profit before tax		**24,180**	**19,402**
Income tax expense	10	(2,728)	(1,965)
Profit for the year		**21,452**	**17,437**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Investment securities measured at FVOCI			
Gains less losses arising during the year, net of tax	10	92	(139)
Total comprehensive income for the year		**21,544**	**17,297**

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 62.

PROCREDIT BANK SH.A.
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2019
In EUR thousand

	Note	31 December 2019	31 December 2018
Assets			
Cash and balances with Central Banks	11	157,945	120,299
Loans and advances to banks	12	40,710	35,760
Loans and advances to customers	13	505,260	493,094
Investment securities measured at FVOCI	14	86,999	84,605
Other financial assets	17	2,319	2,668
Current income tax prepayment	10	1,061	1,138
Deferred tax asset	10	-	46
Other assets	18	1,262	1,838
Intangible assets	15	20	33
Property and equipment	16	10,354	14,502
Total assets		**805,930**	**753,983**
Liabilities			
Due to banks	19	715	478
Due to customers	20	673,113	639,367
Other financial liabilities	21	1,436	764
Other liabilities	22	4,819	2,285
Deferred tax liabilities	10	448	-
Borrowings	23	19,906	10,034
Subordinated debt	23	7,538	7,644
Total liabilities		**707,975**	**660,573**
Equity			
Share capital	24	61,346	61,346
Share premium	24	4,204	4,204
Contingency reserve	24	511	511
Revaluation reserve for investment securities measured at FVOCI	24	141	49
Retained earnings		31,753	27,300
Total equity		**97,955**	**93,410**
Total liabilities and equity		**805,930**	**753,983**

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 62.

These financial statements have been approved by the Management Board on 27 April 2020 and signed on their behalf by:

Eriola Bibolli
Chief Executive Officer

Esad Haxhani
Head of Finance Department

PROCREDIT BANK SH.A.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
In EUR thousand

	Notes	2019	2018
Cash flows from operating activities			
Profit before tax		**24,180**	**19,402**
Adjustments for:			
Depreciation	16	2,063	2,058
Amortization	15	22	407
Impairment of fixed assets	16	1,062	
Gains on disposal of property and equipment		(528)	(196)
Impairment losses	13	(8,453)	(584)
Interest income	7	(29,950)	(32,151)
Interest expense	7	1,957	1,009
Cash flows used in operating activities before changes in operating assets		**(9,647)**	**(10,055)**
Net (increase)/decrease in:			
Due from other banks		(9,845)	4,825
Loans and advances to customers		(4,153)	(12,905)
Other assets		576	2,309
Other financial assets		349	5,409
Balances with the Central Bank		(1,076)	4,043
Net increase/(decrease) in:			
Due to other banks		237	218
Due to customers		33,412	(33,463)
Other liabilities		2,534	(462)
Other financial liabilities		672	(453)
		13,059	**(40,534)**
Interest received		30,074	32,213
Interest paid		(1,698)	(1,649)
Income tax paid		(2,322)	(2,003)
Net cash generated/(used in) operating activities		**39,113**	**(11,973)**
Cash flows from investing activities			
Acquisition of investment securities through FVOCI		(33,116)	(35,382)
Proceeds from disposal of investment securities through FVOCI		31,150	56,227
Acquisition of premises and equipment	16	(3,778)	(863)
Proceeds from disposal of premises and equipment	16	5,311	801
Acquisition of intangible assets	15	(9)	(357)
Net cash (used in)/from investing activities		**(442)**	**20,426**
Cash flow from financing activities			
Proceeds from long term borrowings		10,000	-
Dividends paid	24	(17,000)	(20,000)
Net cash used in financing activities		**(7,000)**	**(20,000)**
Net decrease in cash and cash equivalents		**31,675**	**(11,547)**
Cash and cash equivalents at the beginning of the year		**111,885**	**123,432**
Cash and cash equivalents at the end of the year	11	**143,560**	**111,885**

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 62.

PROCREDIT BANK SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
As at 1 January 2018	**61,346**	**4,204**	**511**	**29,864**	**188**	**96,112**
Profit for the year	-	-	-	17,437	-	17,437
Other comprehensive income	-	-	-	-	(139)	(139)
Total comprehensive income	**-**	**-**	**-**	**17,437**	**(139)**	**17,298**
Dividend paid	-	-	-	(20,000)	**-**	**(20,000)**
Balance as at 31 December 2018	**61,346**	**4,204**	**511**	**27,300**	**49**	**93,410**
Total comprehensive income						
Profit for the year	-	-	-	21,452	-	21,452
Other comprehensive income	-	-	-	-	92	92
Total comprehensive income				**21,452**	**92**	**21,544**
Dividend paid	-	-	-	(17,000)	**-**	**(17,000)**
Balance at 31 December 2019	**61,346**	**4,204**	**511**	**31,753**	**141**	**97,955**

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 62.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

1. Introduction

ProCredit Bank sh.a. Kosovo ("the Bank") was incorporated in the Republic of Kosovo on 9 December 1999 as a joint stock company. The Bank began its operations on 12 January 2000.

The Bank is a fully owned subsidiary of the ProCredit Holding AG& Co. KGaA (ProCredit Holding).

Principal activity: The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Bank of Kosovo (former Central Banking Authority of Kosovo) ("CBK") and is currently subject to the Law "On Banks, Microfinance Institutions and Non-Bank Financial Institutions", No. 04/L-093. ProCredit Bank, was the first licensed bank in Kosovo. ProCredit Bank sh.a. is a development-oriented commercial bank which offers customer services to small and medium enterprises and to private individuals. In its operations, it adheres to a number of core principles: it values transparency in its communication with customers; seeks to minimise ecological footprint; and, to provide services which are based both on an understanding of each client's situation and a sound financial analysis.

Registered address and place of business:The Bank's registered address is Str. "George Bush", No 26, 10000 Prishtina, Republic of Kosovo. During 2019, apart from offering online services via e-Banking platform and website service, the Bank operated with branches, service points, Contact Centre and 24/7 (self-service) Zones, in order to provide customers with comprehensive and more accessible services.

Board of Directors*:*

- Mr. Gabriel Schor, Chairperson
- Mr. Marcel Zeitinger, Member
- Mr. Rainer Ottenstein, Member
- Mr. Jordan Damchevski, Member
- Mr. Artane Rizvanolli Berisha, Member
- Mr. Eriola Bibolli, Member

2. Significant accounting policies

(a) Basis of preparation

Statement of compliance: These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of investment securities measured at FVOCI. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Use of judgements and estimates: The bank's financial reporting and its financial result are influenced by assumptions, estimates, and management judgements, which necessarily have to be made in the course of preparation of the Financial Statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. 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.

COVID 19

The rapid development of the Covid-19 virus and its social and economic impact in Kosova and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular, management expects the assumptions and estimates used in determining Loans to Banks, Investment Securities and Loans and Advances to Customers, Due to banks, Due to Customers and Borrowings and Subordinated Debt and their carrying values to be affected. However, at this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer-term impact may also have an impact on revenues, cash flows and profitability. Nevertheless, at the date of these financial statements the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(a) Basis of preparation

Functional and presentation currency. These financial statements are presented in EUR, which is the Bank's functional currency, currency of the primary economic environment in which the entity operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

(b) Interest

Effective interest rate

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 estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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.

Amortised cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(c) Fees and commissions

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Other fee and commission income and expenses consist of fees and commissions from (for): credit cards, account service fees, international payments, domestic payments, Central Bank fees, SMS banking, guarantees and letters of credit and other fees and commissions. Other fee and commissions are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Leases

The Bank applies IFRS 16 retrospectively using the modified retrospective approach. At the time of initial application, there were no effects on the opening balance of retained earnings. The bank applies the definition of a lease under IFRS 16 for all agreements at the date of initial application. There are no leases that were previously classified as finance leases. Leases with a term ending less than 12 months after the date of initial application are treated as short-term leases and are not recognised in the balance sheet. For contracts with extension and termination options, the term of the lease was determined retrospectively. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019.

(e) Foreign currency transactions

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

Foreign currency monetary assets and liabilities are translated using the closing exchange rates. 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 statement.

(f) Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge comprises current tax and deferred income tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

(i) Current tax

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

2. Significant accounting policies (continued)

(ii) Deferred tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(iii) Uncertain tax positions

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

(g) Financial instruments

(i) Recognition and initial measurement

The Bank initially recognizes 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 recognized 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 FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

Business model assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

The Bank has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii) Derecognition

Financial assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), 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.

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.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, 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.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

(iv) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

Financial liabilities
The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) 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 currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(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 one is 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 on 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 on 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 for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on 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.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vi) Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. 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.

(vii) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

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NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Credit impaired financial assets (continued)
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

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NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

Non-integral financial guarantee contracts
The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL. If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

(h) Cash and cash equivalents

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

(i) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see J(ii)); these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables

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 or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

(j) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

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

2. Significant accounting policies (continued)

(k) Property and equipment

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

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

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

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

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

Description	Useful life 2019	Useful life 2018
Buildings	40 years	40 years
Leasehold improvements	Based on lease term	Based on lease term
Land is not depreciated		
Electronic equipment	2-5 years	2-5 years
Furniture and fixtures	5-10 years	2-10 years
Motor vehicle	3-5years	3-5years
Other fixed assets	2-10 years	2-7 years

Property and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 100 (2018: EUR 50) and, are also not material in aggregate, are expensed in profit or loss.

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

(l) Intangible assets

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

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(m) Repossessed collateral

Repossessed collateral represents properties acquired by the Bank in settlement of overdue loans. The assets are initially recognised at the lower value between fair value less costs to sell and the carrying amount of the loan at the date of exchange. Movable property is not recognised as an asset when repossessed. .

The Bank subsequently measures repossessed collateral at the lower between amount initially recognised and the fair value of the properties less costs to sell. For the assessment of the fair value, the management uses appraisal performed by external expert valuators, licensed by Central Bank of Kosovo. The Bank applies haircuts determined by the Bank that reflect limitations of the market, consideration of time value of money and legal issues with the properties.

Management of the Bank has assessed 20% as the initial haircut to fair value that best represents the above limitations. Additional haircuts are applied to reflect legal issues and additional difficulties to realise the sale. Repossessed assets are written off in case they are not sold by the Bank 5 years from repossession. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

(n) Due from other banks

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

(o) 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.

(p) 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.

(q) 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 staff leave untaken by the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS
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2. Significant accounting policies (continued)

(r) 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.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018:* at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *from 1 January 2019:* at the higher of the loss allowance determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- the Bank recognises a loss allowance in accordance with IFRS 9

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(s) 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.

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NOTES TO THE FINANCIAL STATEMENTS
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3. Adoption of new and revised International Financial Reporting Standards

3.1. Standards and interpretations effective in the current period

- **IFRS 16 Leases**

In the current year, the Bank has applied IFRS 16 that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 2 (d). The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS17 and IFRIC4

a) Impact of the new definition of the lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.
The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

b) ***Impact on Lessee Accounting***

(i) Former operating leases

IFRS 16 has changed how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank has:

- Recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognised depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss
- Separate the total amount of cash paid into a principal portion (presented within financing activities) an interest (presented within operating activities) in the cash flow statement.

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NOTES TO THE FINANCIAL STATEMENTS
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3. Adoption of new and revised International Financial Reporting Standards (continued)

3.1. Standards and interpretations effective in the current period (continued)

b) Impact on Lessee Accounting (continued)

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Bank has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The Bank as of the year end does not have sub-leases for its leases recognized as right-of-use assets.

(d) Financial impact of initial application of IFRS 16

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 5.82%.

The Bank has recognised EUR 1.9 million of right-of-use assets and EUR 1.9 million of lease liabilities upon transition to IFRS 16. The net impact in retained earnings is zero.

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3. Adoption of new and revised International Financial Reporting Standards (continued)

3.1. Standards and interpretations effective in the current period (continued)

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording** (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Bank's financial statements.

3. Adoption of new and revised International Financial Reporting Standards (continued)

3.2 Standards and interpretations in issue not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations" - Definition of a Business** (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material** (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations (except of IFRS 16 as disclosed below) will have no material impact on the financial statements of the Bank in the period of initial application.

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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.

(i) Impairment charge for credit losses

The Bank reviews its loan portfolio to assess impairment on a monthly basis for all on and off-balance sheet credit exposures, regardless of their size. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on loans and advances by EUR 1,431 thousand (2018: EUR 2,274 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in impairment on loans and advances by EUR 101 thousand (2018: EUR 359 thousand), respectively.

The Bank measures repossessed assets at the lower of cost (auction value) and net realizable value. The fair value measurement includes the use of independent appraiser's valuation reports. The values are subsequently reviewed by the Bank's Management for significant unobservable inputs and any required write down adjustments. Currently, due to the specifics of real estate market in Kosovo and legalization issues, the frequency of transactions is low. In management's assessment there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Bank's repossessed collateral. Management has reviewed the appraisers' assumptions underlying the methods used in the valuation reports and confirms that comparable information used, legal status of the properties and assumptions made are appropriately determined considering the market conditions at the end of the reporting period. Notwithstanding the above, management considers that the valuation of its repossessed collateral is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value. Haircuts management uses to reflect the costs to sell of the property cover uncertainty related to legal status, timing when repossessed collateral will be sold and other market limitations.

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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 Monitoring Function and Credit Risk Department that work 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) 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 does not aim to profit from speculative transactions. The Bank 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 by the Risk Monitoring Function. In addition regulatory limits are at all times adhered to by the Bank.

Treasury unit assesses foreign exchange rate developments with reference to all material currency positions. Major changes in the structure of assets and liabilities denominated in foreign currency and their impact are reviewed before trades are executed by the bank's treasury front office department.

Treasury unit also observes the financial market and informs the Risk Monitoring Function regularly and in case of significant developments that may influence the currency risk situation of the bank.

Even though the bank aims to keep its currency position as close as possible to zero, there may be occasions where the bank is still affected by unpredicted volatility of exchange rates. Therefore, the Risk Monitoring Function performs stress tests and reports the effects in P&L of the bank on monthly basis.

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 2019	**31 December 2018**
1 USD	0.8901	0.8734
1 CHF	0.9213	0.8874
1 GBP	1.1753	1.1179

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2019 and 2018 as translated into EUR '000.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(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 2019	EUR	USD	CHF	GBP	Total
Assets					
Balances with Central Banks	156,147	1,568	217	13	157,945
Loans and advances to banks	26,945	13,560	185	20	40,710
Loans and advances to customers	504,450	810	-	-	505,260
Investment securities measured at FVOCI	74,854	12,145	-	-	86,999
Other financial assets	1,740	579	-	-	2,319
Total monetary financial assets	**764,136**	**28,662**	**402**	**33**	**793,233**
Liabilities					
Due to banks	714	0	1	-	715
Due to customers	644,214	28,566	297	36	673,113
Borrowings and subordinated debt	27,444	-	-	-	27,444
Other financial liabilities	1,436	-	-	-	1,436
Total monetary financial liabilities	**673,807**	**28,566**	**298**	**36**	**702,707**
Net on-balance sheet financial position	**90,329**	**95**	**104**	**(3)**	**90,525**
Credit commitments	58,183	87	-	-	58,270
Off balance sheet - letters of credit	213	-	-	-	213
Off balance sheet - bank guarantees	35,709	578	-	-	36,287
Total credit related commitments	**94,105**	**665**	**-**	**-**	**94,770**

31 December 2018	EUR	USD	CHF	GBP	Total
Assets					
Balances with Central Banks	117,582	2,112	567	38	120,299
Loans and advances to banks	21,510	14,056	129	65	35,760
Loans and advances to customers	492,569	525	-	-	493,094
Investment securities measured at FVOCI	65,643	18,962	-	-	84,605
Other financial assets	2,668	-	-	-	2,668
Total monetary financial assets	**699,972**	**35,655**	**696**	**103**	**736,426**
Liabilities					
Due to banks	477	-	1	-	478
Due to customers	603,463	35,557	300	47	639,366
Borrowings and subordinated debt	17,678	-	-	-	17,678
Other financial liabilities	764	-	-	-	764
Total monetary financial liabilities	**622,382**	**35,557**	**301**	**47**	**658,287**
Net on-balance sheet financial position	**77,591**	**98**	**394**	**56**	**78,139**
Credit commitments	62,273	70	-	-	62,343
Off balance sheet - letters of credit	1,563	-	-	-	1,563
Off balance sheet - bank guarantees	29,430	873	-	-	30,303
Total credit related commitments	**93,266**	**943**	**-**	**-**	**94,209**

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NOTES TO THE FINANCIAL STATEMENTS
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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 and net equity of the Bank net of tax:

	Increase 2019	Increase 2018	Effect on profit or loss and net equity 31 December 2019	Effect on profit or loss and net equity 31 December 2018
USD	10%	10%	8	2
Other	10%	10%	9	42

(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. ProCredit Bank does not aim to earn profits through excessive maturity transformation, or other forms of speculations in the interest rate market. Instead, 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.

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
At 31 December 2019									
Assets									
Cash on hand		-	-	-	-	-	-	-	41,433
Balances with Central Banks		77,214	-	-	-	-	-	**77,214**	37,730
Current accounts with banks		2,778	-	-	-	-	-	**2,778**	530
T-bills and marketable securities	Fixed	1,750	2,280	26,050	6,050	4,460	100	**40,690**	1,115
	Variable	28,000	5,000	-	-	-	-	**33,000**	49
Term deposits with banks		117	20,386	2,561	400	390	-	**23,854**	(11)
Loans and advances to customers	Fixed	37,065	92,054	100,316	84,403	93,845	9,604	**417,287**	1,701
	Variable	85,418	-	-	-	-	-	**85,418**	-
Other financial assets		-	-	-	-	-	-	-	1,740
Total assets		**232,342**	**119,720**	**128,927**	**90,853**	**98,695**	**9,704**	**680,241**	**84,287**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	715
Current accounts from customers		5,712	28,505	34,207	68,413	-	-	**136,837**	403,377
Deposits from customers		2,958	11,184	31,016	29,564	28,333	-	**103,055**	1,347
Borrowings and subordinated debt	Fixed	-	-	-	2,857	17,143	-	**20,000**	(94)
	Variable	-	-	-	-	7,500	-	**7,500**	38
Other financial liabilities		-	-	-	-	-	-	-	1,436
Total liabilities		**8,670**	**39,689**	**65,223**	**100,834**	**52,976**	-	**267,392**	**406,819**
IR sensitivity gap- open position		**223,672**	**80,031**	**63,704**	**-9,981**	**45,719**	**9,704**	**412,849**	**n/a**

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
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(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 2018		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	49,956
Balances with Central Banks		31,581	-	-	-	-	-	31,581	36,650
Current accounts with banks		8,788	-	-	-	-	-	8,788	916
T-bills and marketable	Fixed	50	15,100	1,000	13,350	1,550	200	31,250	184
securities	Variable	10,000	24,000	-	-	-	-	34,000	209
Term deposits with banks		7,152	1,134	2,076	1,250	390	-	12,002	(3)
Loans and advances to	Fixed	33,587	89,189	100,642	86,246	96,206	13,935	419,805	2,148
customers	Variable	70,626	-	-	-	-	-	70,626	-
Other financial assets		-	-	-	-	-	-	-	2,668
Total assets		**161,784**	**129,423**	**103,718**	**100,846**	**98,146**	**14,135**	**608,052**	**92,728**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	696
Current accounts from customers		3,846	19,018	22,821	45,643	45,643	-	136,971	408,335
Deposits from customers		3,130	10,542	24,499	12,213	7,363	-	57,747	856
Borrowings and	Fixed	-	-	-	-	10,000	-	10,000	34
subordinated debt	Variable	-	7,500	-	-	-	-	7,500	144
Other financial liabilities		-	-	-	-	-	-	-	764
Total liabilities		**6,976**	**37,060**	**47,320**	**57,856**	**63,006**	**-**	**212,218**	**410,829**
IR sensitivity gap- open position		**154,808**	**92,363**	**56,398**	**42,990**	**35,140**	**14,135**	**395,834**	**n/a**

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
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5. Financial risk management (continued)
(b) Market risk (continued)
(ii) Interest rate risk (continued)

USD interest Sensitivity Gap At 31 December 2019		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	1,568
Current accounts with banks		4,357	-	-	-	-	4,357	-
T-bills and marketable securities	Fixed	-	7,121	-	-	-	7,121	115
	Variable	4,896	-	-	-	-	4,896	13
Term deposits with banks		1,780	7,388	-	-	-	9,168	614
Loans and advances to customers	Fixed	-	783	71	-	-	854	-
Other financial assets		-	-	-	-	-	-	579
Total assets		**11,033**	**15,292**	**71**	-	-	**26,396**	**2,889**
Current accounts from customers		7,041	-	-	-	-	7,041	21,422
Deposits from customers		2	-	101	-	-	103	-
Other financial liabilities		-	-	-	-	-	-	-
Total liabilities		**7,043**	**0**	**101**	-	-	**7,144**	**21,422**
IR sensitivity gap- open position		**3,990**	**15,292**	**(31)**	-	-	**19,252**	**n/a**

At 31 December 2018		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	2,112
Current accounts with banks		6,933	-	-	-	-	6,933	-
T-bills and marketable securities	Fixed	-	8,734	5,240	-	-	13,974	167
	Variable	4,803	-	-	-	-	4,803	17
Term deposits with banks		1,310	5,240	-	-	-	6,550	573
Loans and advances to customers	Fixed	-	429	86	-	-	515	-
Other financial assets		-	-	-	-	-	-	-
Total assets		**13,046**	**14,403**	**5,326**	-	-	**32,775**	**2,869**
Current accounts from customers		7,264	-	-	-	-	7,264	28,128
Deposits from customers		2	64	100	-	-	166	-
Other financial liabilities		-	-	-	-	-	-	-
Total liabilities		**7,266**	**64**	**100**	-	-	**7,430**	**28,128**
IR sensitivity gap- open position		**5,780**	**14,339**	**5,226**	-	-	**25,345**	**n/a**

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
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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 2019 and 2018, and assuming a parallel shift of interest rate for +/-50bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

Increase on interest rates of 0.5%	Interest earning decline over the next 3 months		Interest earning decline over the next 1 year		Economic Value impact	
Assets and Liabilities in:	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EUR	252	185	1,464	1,182	(1,289)	(1,722)
USD	8	11	77	91	(19)	(34)

(b) 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 pervasive to 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 Unit and Risk Monitoring Function. 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 represents a worst case scenario of credit risk exposure of the Bank at 31 December 2019 and 2018, 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.

Maximum exposure to credit risk	**31 December 2019**		**31 December 2018**	
	Carrying amount	**Amount committed/ guaranteed**	**Carrying amount**	**Amount committed/ guaranteed**
Balances with Central Banks and Treasury Bills with maturities of less than 3 months	114,944	-	68,266	-
Loans and advances to banks	40,710	-	35,760	-
Loans and advances to customers	505,260	-	493,094	-
Investment securities measured at FVOCI	86,999	-	84,605	-
Other financial assets	2,319	-	2,668	-
Lending commitments and guarantees	-	94,770	-	94,209
Total	**750,232**	**94,770**	**684,393**	**94,209**

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For the year ended 31 December 2019
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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Off balance sheet	**31 December 19**	**31 December 18**
Credit commitments	58,270	62,343
Financial guarantees	28,335	30,303
Non-financial guarantees	7,952	
Letters of Credit	213	1,563
	94,770	**94,209**
Provisions recognised as liabilities	(453)	(847)
Total	**94,317**	**93,362**

Cash and balances with central banks

Cash and current account with banks are neither past due nor impaired and are not collateralised. The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government are not provided with a rating by recognised rating agencies.

In thousands of Euro **31 December 2019**	**Fitch Rating**	**Cash balances with central banks, including mandatory reserves**	**Kosovo Government securities with maturities less than 3 months**	**Total**
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		18,192	-	18,192
- Mandatory reserve		37,730	-	37,730
- Government securities		-	2,006	2,006
Central Bank of the Republic of Germany (Deutche Bundesbank)	AAA	59,022	-	59,022
Total cash and cash equivalents, excluding cash on hand		**114,944**	**2,006**	**116,950**

In thousands of Euro **31 December 2018**	**Fitch Rating**	**Cash balances with central banks, including mandatory reserves**	**Kosovo Government securities with maturities less than 3 months**	**Total**
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		3,878	-	3,878
- Mandatory reserve		36,684	-	36,684
- Government securities		-	8,049	8,049
Central Bank of the Republic of Germany (Deutche Bundesbank)	AAA	27,669	-	27,669
Total cash and cash equivalents, excluding cash on hand		**68,231**	**8,049**	**76,280**

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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Due from banks

Interbank exposures are closely monitored on a daily basis by risk monitoring function and treasury unit. The Bank limits its deposits and other banking transactions to financially sound international banks. Before a business relationship is initiated with a given bank, management of the Bank and risk monitoring function 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 unit, risk monitoring function, monitors that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank. Thus, risk monitoring function supports the treasury unit 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 with 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 approves 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:

	31 December 2019	31 December 2018
Neither past due nor impaired		
- AA+ to AA- rating	14,975	6,220
- A+ to A- rating	20,698	8,780
- BBB+ to B- rating	5,036	20,760
Total due from other banks (gross)	**40,710**	**35,762**

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers

in '000 EUR

As of 31 December 2019	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	81,594	410,450	492,044
Loss allowance for loans to customers	(1,203)	(4,206)	(5,409)
Net outstanding amount	80,391	406,244	486,635
Stage 2			
Gross outstanding amount	934	14,661	15,595
Loss allowance for loans to customers	(68)	(976)	(1,044)
Net outstanding amount	866	13,685	14,551
Stage 3			
Gross outstanding amount	1,555	12,886	14,441
Loss allowance for loans to customers	(1,191)	(9,529)	(10,720)
Net outstanding amount	364	3,357	3,721
POCI			
Gross outstanding amount	-	675	675
Loss allowance for loans to customers	-	(322)	(322)
Net outstanding amount	-	353	353
Total Gross outstanding amount	84,083	438,672	522,755
Total Loss allowance for loans to customers	(2,462)	(15,033)	(17,495)
Total Net outstanding amount	**81,621**	**423,639**	**505,260**

in '000 EUR

As of 31 December 2018	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	116,784	365,073	481,857
Loss allowance for loans to customers	(1,950)	(6,609)	(8,559)
Net outstanding amount	114,834	358,464	473,298
Stage 2			
Gross outstanding amount	3,302	14,183	17,485
Loss allowance for loans to customers	(736)	(2,543)	(3,279)
Net outstanding amount	2,566	11,640	14,206
Stage 3			
Gross outstanding amount	5,624	13,258	18,882
Loss allowance for loans to customers	(4,782)	(8,775)	(13,557)
Net outstanding amount	842	4,483	5,325
POCI			
Gross outstanding amount	-	364	364
Loss allowance for loans to customers	-	(99)	(99)
Net outstanding amount	-	265	265
Total Gross outstanding amount	125,710	392,878	518,588
Total Loss allowance for loans to customers	(7,468)	(18,026)	(25,494)
Total Net outstanding amount	**118,242**	**374,852**	**493,094**

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts expressed in EUR thousand, unless otherwise stated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning

Loss allowances

The bank establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. In general, a three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

The bank sets aside loss allowances for the balance sheet items “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers”, “Investment securities” and for the financial assets under “Other assets”. These are generally recognised at net value within the corresponding balance sheet position; the exception is “Investment securities” recognised at fair value. The loss allowances for “Investment securities” are recognised directly in shareholders’ equity under “Revaluation reserve”.

The bank uses expected loss impairment model which requires recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments. The model is forward-looking and it replaces the incurred loss model for recognition of credit losses, by recognising credit losses not necessarily triggered by a potential loss event.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

This model outlines three stages based on changes in the exposure’s credit risk since the date of initial recognition.

- Stage I: Financial assets are generally classified as “Stage 1” when they are recognised for the first time. The bank establishes loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage II: If credit risk increases significantly, the assets are classified as “Stage 2” and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage III: Defaulted financial assets are classified as “Stage 3” and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

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NOTES TO THE FINANCIAL STATEMENTS
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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.

Recoveries of amounts previously written off and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised in profit or loss as direct write-offs.

Investments securities measured through FVOCI

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 Policy. 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.

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

31 December 2019	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	50,566	50,566
- AA+ rated	-	20,646	20,646
- Unrated (at Government or Country level)	15,787		15,787
Total Investment securities measured through FVOCI	**15,787**	**71,212**	**86,999**

31 December 2018	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	57,392	57,392
- AA+ rated	-	5,030	5,030
- Unrated (at Government or Country level)	22,183		22,183
Total Investment securities measured through FVOCI	**22,183**	**62,422**	**84,605**

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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Lending commitments and financial guarantees

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

(ii) Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are 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 security for fund advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

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

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 noted for the relevant individual loans and advances.

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

- those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”); and
- those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

At 31 December 2019	Over-collateralised		Under-collateralised	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	269,346	707,959	138,033	102,489
Private	30,616	97,902	67,265	14,710
	299,962	**805,861**	**205,298**	**117,199**

At 31 December 2018	Over-collateralised		Under-collateralised	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	224,895	650,279	152,537	119,345
Private	31,995	102,695	83,667	15,934
	256,890	**752,974**	**236,204**	**135,279**

The fair value of the collateral is evaluated by the Bank on an individual basis. The assessed values are generally determined with reference to the market. Expected income from collateral liquidation is also taken into account in calculation of individual impairment provisioning.

(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.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as at 31 December 2019 and 2018. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

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5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

	2019			2018		
	OECD countries	**Kosovo**	**Total**	**OECD countries**	**Kosovo**	**Total**
Assets						
Balances with Central Banks	59,022	55,922	114,944	27,668	40,597	68,266
Loans and advances to banks	40,710	-	40,710	35,760	-	35,760
Loans and advances to customers	-	505,260	505,260	-	493,094	493,094
Investment securities measured at FVOCI	71,212	15,787	86,999	62,422	22,183	84,605
Other financial assets	-	2,319	2,319	-	2,668	2,668
	170,944	**579,288**	**750,232**	**125,850**	**558,542**	**684,393**
Liabilities						
Due to other banks	70	645	715	99	379	478
Due to customers	55,085	618,028	673,113	42,360	597,007	639,367
Borrowings	19,906	-	19,906	10,034	0	10,034
Subordinated debt	7,538	-	7,538	7,644	0	7,644
Other financial liabilities	-	1,436	1,436	-	764	764
	82,599	**620,109**	**702,708**	**60,137**	**598,150**	**658,287**

Industry

	2019			2018		
	Private	**Business**	**Total**	**Private**	**Business**	**Total**
Assets						
Balances with Central Banks	-	114,944	114,944	-	68,266	68,266
Loans and advances to banks	-	40,710	40,710	-	35,760	35,760
Loans and advances to customers	99,324	405,936	505,260	118,242	374,852	493,094
Investment securities measured at FVOCI	-	86,999	86,999	-	84,605	84,605
Other financial assets	-	2,319	2,319	-	2,668	2,668
Total assets	**99,324**	**650,908**	**750,232**	**118,242**	**566,151**	**684,393**
Liabilities						
Due to other banks	-	715	715	-	478	478
Due to customers	485,925	187,188	673,113	477,947	161,420	639,367
Borrowings	-	19,906	19,906	-	10,034	10,034
Subordinated debt	-	7,538	7,538	-	7,644	7,644
Other financial liabilities	-	1,436	1,436	-	764	764
Total liabilities	**485,925**	**216,783**	**702,708**	**477,947**	**180,122**	**658,287**

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5. Financial risk management (continued)
(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 of undiscounted remaining contractual maturities at the reporting date grouped by expected maturities of the financial assets and liabilities. 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 the expected cumulative maturity gap positive at all times. Should the expected cumulative maturity gap be negative 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 positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank’s guarantees and letters of credit and other credit related commitments) become due and assets can be used as repayment source (including the off balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).

In the liquidity gap table presented below the following definitions are considered relevant:

- Assets 1 - are assets which do not have a contractual maturity and/or can be converted into cash very quickly;
- Assets 1-S – are assets that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities;
- Liabilities 1 – are liabilities which contractually are due on demand; and
- Liabilities 1-S – are liabilitie that have a contractual maturity and the distribution into the time buckets is based on the remaining maturities.

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

As at 31 December 2019	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	43,001	-	-	-	-	43,001
Reserves with the Central Bank	37,760	-	-	-	-	37,760
Current accounts with Central Banks	77,214	-	-	-	-	77,214
Current accounts with banks	7,782	533	1,470	2,561	1,369	13,714
Unused credit commitments	-	-	-	-	-	-
T-bills and marketable securities	19,760	12,394	7,481	36,729	10,635	86,999
Assets 1-S						
Term deposits with banks	1,788	13,292	12,501	-	-	27,581
Loans and advances to customers	23,873	46,903	66,242	134,378	299,503	570,899
Total Assets	**211,177**	**73,122**	**87,694**	**173,668**	**311,507**	**857,168**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	539	-	-	-	-	539
Due to customers (due daily)	558,809	-	-	-	-	558,809
Contingent liabilities from guarantees	36,500	-	-	-	-	36,500
Unused credit commitments	58,261	-	-	-	-	58,261
Liabilities 1-S						
Due to customers	3,141	4,135	7,980	28,261	42,444	85,960
Borrowings and subordinated debt	-	-	488	1,568	28,881	30,937
Total Contractual Liabilities	**657,250**	**4,135**	**8,468**	**29,829**	**71,325**	**771,007**
Periodic Contractual Liquidity Gap	**(446,073)**	**68,987**	**79,226**	**143,839**	**240,182**	**86,161**
Cumulative Contractual Liquidity Gap	**(446,073)**	**(377,086)**	**(297,860)**	**(154,021)**	**86,161**	**-**
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	329					329
Due to customers (due daily)	42,807	22,492	31,374	59,179	413,340	569,193
Contingent liabilities from guarantees	1,825	-	-	-	-	1,825
Unused credit commitments	5,826	-	-	-	-	5,826
Liabilities 1-S						
Due to customers	3,141	4,134	7,980	28,261	42,444	85,960
Borrowings and subordinated debt	-	-	488	1,568	28,881	30,937
Total Expected Liabilities	**53,929**	**26,626**	**39,842**	**89,008**	**484,665**	**694,070**
Periodic Expected Liquidity Gap	**157,248**	**46,496**	**47,852**	**84,660**	**(173,158)**	**163,098**
Cumulative Expected Liquidity Gap	**157,248**	**203,744**	**251,596**	**336,256**	**163,098**	**-**

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

As at 31 December 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	52,068	-	-	-	-	52,068
Reserves with the Central Bank	36,684	-	-	-	-	36,684
Current accounts with Central Banks	31,581	-	-	-	-	31,581
Current accounts with banks	16,892	548	586	2,076	2,196	22,298
Unused credit commitments	-	-	-	-	-	-
T-bills and marketable securities	51	17,816	6,852	6,595	53,291	84,605
Assets 1-S						
Term deposits with banks	8,224	2,642	2,631	-	-	13,497
Loans and advances to customers	24,392	46,366	60,613	110,485	324,310	566,166
Total Assets	**169,892**	**67,372**	**70,682**	**119,156**	**379,797**	**806,899**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	352	-	-	-	-	352
Due to customers (due daily)	567,921	-	-	-	-	567,921
Contingent liabilities from guarantees	31,455	-	-	-	-	31,455
Unused credit commitments	62,288	-	-	-	-	62,288
Liabilities 1-S						
Due to customers	3,582	4,989	7,128	23,000	22,222	60,921
Borrowings and subordinated debt	-	254	44	353	18,339	18,990
Total Contractual Liabilities	**665,598**	**5,243**	**7,172**	**23,353**	**40,561**	**741,927**
Periodic Contractual Liquidity Gap	**(495,706)**	**62,129**	**63,510**	**95,803**	**339,236**	**64,972**
Cumulative Contractual Liquidity Gap	**(495,706)**	**(433,577)**	**(370,067)**	**(274,264)**	**64,972**	**-**
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	191					191
Due to customers (due daily)	41,695	20,120	30,539	52,420	424,960	569,734
Contingent liabilities from guarantees	1,485	-	-	-	-	1,485
Unused credit commitments	6,215	-	-	-	-	6,215
Liabilities 1-S						
Due to customers	3,582	4,989	7,128	23,000	22,222	60,921
Borrowings and subordinated debt	-	254	44	353	18,339	18,990
Total Expected Liabilities	**53,168**	**25,363**	**37,711**	**75,773**	**465,521**	**657,536**
Periodic Expected Liquidity Gap	**116,724**	**42,009**	**32,971**	**43,383**	**(85,724)**	**149,363**
Cumulative Expected Liquidity Gap	**116,724**	**158,733**	**191,704**	**235,087**	**149,363**	**-**

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 (Investment Securities measured at FVOCI) 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 2019, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in the Bank's Financial and Market Risk Management Committee and ALCO. The stress test is performed applying four different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Function see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

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5. Financial risk management (continued)

(d) Capital management risk

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 Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a monthly 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 assets (the 'Basel ratio') at or above the minimum of 8% (Actual 15.13% 2018: 15.72%) and to maintain a total regulatory capital, Tier II, to risk-weighted assets at or above the minimum 12% (Actual 17.57% 2018: 18.17%) Therefore, based on the respective ratios, the bank was in compliance with the capital adequacy requirements as at the reporting dates, at 31 December 2019 and 2018.

As at 31 December 2019 and 2018 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2019	2018
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	511	511
Retained earnings[1]	26,367	28,285
less: Intangible assets	(20)	(33)
less: Credits to bank related persons	(4,519)	(3,521)
less: Deferred tax assets	(229)	(32)
Total qualifying Tier 1 capital	**87,660**	**90,760**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	6,672	6,601
Total qualifying Tier 2 capital	**14,172**	14,101
Total regulatory capital	**101,832**	**104,861**
Risk-weighted assets:		
On-balance sheet	508,607	508,333
Off-balance sheet	25,181	19,773
Risk assets for operational risk	45,743	49,092
Total risk-weighted assets	**579,531**	**577,198**
Tier I capital adequacy ratio	**15.13%**	**15.72%**
Tier II capital adequacy ratio	**17.57%**	**18.17%**

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5. Financial risk management (continued)

(e) Economic capital

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

- Credit risk (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 99% 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 2019. 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 2019 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 taking potential.

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 assets or liabilities that the entity can access at the measurement date.

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

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6. Fair values of financial instruments (continued)

a. Valuation models (continued)

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

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

b. Financial instruments measured at fair value

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.

Investment securities measured at FVOCI	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
31 December 2019	**86,999**	**71,211**	**15,788**	**-**
Bonds	86,270	71,211	15,059	-
Treasury bills	729	-	729	-
31 December 2018	**84,605**	**62,422**	**22,183**	**-**
Bonds	72,260	62,422	9,838	-
Treasury bills	12,345	-	12,345	-

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6. Fair values of financial instruments (continued)

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

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

	31 December 2019			31 December 2018		
	Carrying value	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 2	Fair value Level 3
Financial Assets						
Loans and receivables						
Cash and balances with Central Banks	**157,975**	**157,975**	-	**120,334**	**120,334**	-
Loans and advances to banks	**40,710**	**40,710**	-	**35,760**	**35,760**	-
Current accounts	13,136	13,136	-	21,741	21,741	-
Time deposits with banks	27,575	27,575	-	13,465	13,465	-
Loans and advances to customers	**505,260**	-	**494,276**	**493,094**	-	**476,632**
Fixed loans	504,400	-	493,435	492,260	-	475,825
Agricultural loans	4,768	-	4,664	9,205	-	8,898
Business loans	392,441	-	383,910	361,697	-	349,621
Private loans	3,098	-	3,031	5,425	-	5,244
Housing loans	104,056	-	101,794	115,940	-	112,069
Other loans	897	-	878	834	-	806
Other financial assets	**2,319**	2,319	-	**2,668**	2,668	-
Financial Liabilities						
Due to banks	**715**	715	-	**478**	478	-
Customers' deposits	**673,113**	**569,276**	**103,951**	**639,367**	**581,098**	**58,076**
Current accounts	421,451	421,451	-	431,527	431,527	-
Saving accounts	143,927	143,927	-	144,240	144,240	-
Term deposits	103,837	-	103,951	58,269	-	58,076
Other customer accounts	3,898	3,898	-	5,332	5,332	-
Borrowings and subordinated debt	**27,444**	-	**27,444**	**17,678**	-	**17,678**
Borrowings	19,906	-	19,906	10,034	-	10,034
Subordinated debts	7,538	-	7,538	7,644	-	7,644
Other financial liabilities	1,436	1,436	-	**764**	764	-

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available then, fair value is estimated using fair value own model, such as discounted cash flow technique. Input into the valuation technique 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. For retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.
The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

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7. Net interest income

	2019	2018
Interest income		
Loans and advances to customers	29,512	31,926
Loans and advances to banks	98	44
Investment securities measured at FVOCI	315	89
Other	25	92
Total interest income	**29,950**	**32,151**
Interest expense		
Due to customers	1,110	362
Borrowed funds	730	647
Other	117	-
Total interest expense	**1,957**	**1,009**
Net interest income	**27,993**	**31,142**

Interest income from loans and advances to customers for the year ended 31 December 2019 includes EUR 1,048 thousand (2018: EUR 1,105 thousand) and EUR 167 thousand (2018: EUR 188 thousand) related to accrued interest and unwinding of the discount of impaired loans and advances to customers.

8. Net fee and commission income

	2019	2018
Fee and commission income		
Payment transfers and transactions	3,834	3,926
Debit and credit cards	2,842	3,431
Account maintenance fees	6,238	5,414
Letters of credit and guarantees	739	724
Other fees and commissions	347	472
Total fee and commission income	**14,000**	**13,967**
Fee and commission expense		
IT provider and related services	856	1,103
Fees and commissions on bank accounts	690	630
Other fees to banks	705	671
Fees and expenses related to cards	295	373
Third-party transaction fees	2,293	2,197
Other fees	201	199
Total fee and commission expense	**5,040**	**5,173**
Net fee and commission income	**8,960**	**8,794**

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9. Administrative and other operating expenses

	2019	2018
Personnel expenses (see below)	5,038	6,955
Other expenses	4,901	4,595
Maintenance and repairs	2,402	2,007
Disposal for property and equipment	2,095	253
Depreciation and amortisation (see notes 15 and 16)	2,085	2,464
Impairment of fixed assets	1,062	
Consulting and legal fees	1,035	715
Deposit insurance fund	873	1,112
Expenses for ProCredit Holding and Academies	699	1,136
Advertising and promotion costs	695	601
Security services	619	705
Royalties on software	600	601
Training costs	586	754
Provision for guarantees given	498	313
Communication (telephone, on-line connection)	367	423
Utilities	241	327
Transport (fuel, maintenance)	164	196
Office supplies	158	488
Rental expenses	63	882
	24,181	**24,527**

At 31 December 2019, the Bank had 256 employees (2018: 268 employees).

	2019	2018
Wages and salaries	4,457	5,558
Pension contribution	223	282
Fringe benefits	101	120
Other compensations	257	995
	5,038	**6,955**

10. Income taxes

Amounts recognised in profit or loss

	2019	2018
Current tax expenses	2,245	2,023
Deferred tax income\ expense	483	(58)
Income tax expense	**2,728**	**1,965**

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% (2018: 10%).

Amounts recognised in Other Comprehensive Income ('OCI')

	2019			2018		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Investment securities measured at FVOCI	102	(10)	92	(154)	15	(139)
Total	**102**	**(10)**	**92**	**(154)**	**15**	**(139)**

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10. Income taxes (continued)

Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2018: 10%) to current income tax expense:

	2019	2018
Profit before tax	24,180	19,402
Tax using the corporate tax rate	2,418	1,940
Exempt income	(173)	(70)
Non-deductible expenses	-	95
Deferred tax (income) / expense	483	-
	2,728	**1,965**

Prepaid income tax payable at 31 December 2019 is EUR 1,061 thousand (31 December 2018: prepaid income tax payable of EUR 1,138 thousand).

Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2018: 10%).

	31 December 2018	Profit or loss	OCI	31 December 2019
Deferred tax assets				
Accrued interest from loans	-	-	-	-
Investment securities measured at FVOCI	-	-	-	-
Accrued interest from deposits	12	38	-	50
Depreciation for property and equipment	-	119	-	119
Provisions for loan impairment	216	(216)	-	-
Other Financial Assets	12	(4)		8
	240	**(63)**	**-**	**177**
Deferred tax liabilities				
Accrued interest from loans	(120)	18	-	(102)
Investment securities measured at FVOCI	(3)	-	(11)	(14)
Accrued interest from deposits	-	-	-	-
Depreciation for property and equipment	(71)	71	-	-
Provisions for loan impairment	-	(509)		(509)
	(194)	**(420)**	**(11)**	**(625)**
Net deferred tax assets/(liabilities)	**46**	**(483)**	**(11)**	**(448)**

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11. Cash and balances with Central Banks

	2019	2018
Cash on hand	43,001	52,068
Kosovo Government Securities (with maturities of 3 months or less)	-	-
Amounts held at the CBK		
Current accounts	18,192	3,878
Statutory reserves	37,760	36,718
Balance with Deutche Bundesbank	59,022	27,670
Impairment allowance	(30)	(35)
	157,945	**120,299**

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following:

	2019	2018
Loss allowances as of 01 January	35	-
Transfer to IFRS 9 effect	-	139
New financial assets originated	-	-
Release due to derecognition	(35)	-
Increase/Decrease in credit risk	30	-
Charge to profit and loss	-	(104)
Closing balance	**30**	**35**

In accordance with CBK regulation on Minimum reserve requirement, the bank should maintain the minimum required reserve ratio 10 percent of the following liabilities with maturities up to one year: deposits, borrowings and securities.

The assets with which the bank can meet its demands for reserve are its deposits with the CBK and fifty per cent (50%) of the cash in its vaults. However, deposits with the CBK may not be less than half of the applicable minimum reserve requirement.

Cash and cash equivalents as at 31 December 2019 and 2018 are presented as follows in statement of cash flows:

	2019	2018
Cash and balances with Central Banks	157,945	120,299
Statutory reserves	(37,760)	(36,684)
Loans and advances to banks with original maturities of 3 months or less (note 12)	23,375	28,270
	143,560	**111,885**

12. Loans and advances to banks

	2019	2018
Current accounts	13,136	21,742
Time deposits with banks	27,574	14,020
Impairment allowance	(0.2)	(2)
	40,710	**35,760**

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following:

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12. Loans and advances to banks (continued)

	2019	2018
Loss allowances as of 01 January	2	-
Transfer to IFRS 9 effect	-	6
New financial assets originated	-	-
Release due to derecognition	(2)	-
Increase/Decrease in credit risk	0	-
Charge to profit and loss	-	(4)
Closing balance	**0**	**2**

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

- Deposits in EUR: from -0.6% to -0.24 p.a. (2018: from -0.45% to 0.00% p.a. p.a.); and
- Deposits in USD: from 1.53% to 2.89% p.a. (2018: from 1.30% to 2.89% p.a.).

13. Loans and advances to customers

	2019	2018
Loans to customers	490,731	487,098
Overdrafts	31,915	31,261
Credit cards receivable	109	229
	522,755	**518,588**
Impairment allowance	(17,495)	(25,494)
	505,260	**493,094**

The movement on loans to customers and provision for impairment on loans to customers for the year ended December 31, 2019, and December 31, 2018 based on IFRS 9 requirements, is as follows:

Gross carrying amount	Balance at January 1, 2019	Transfer	Increases/Decreases (including Write-offs)	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses					
Loan and advances to customers	481,862	(11,131)	21,452	(139)	492,044
Stage 2 Lifetime ECL not credit impaired					
Loan and advances to customers	17,482	7,471	(12,304)	2,946	15,595
Stage 3 Lifetime ECL - credit impaired					
Loan and advances to customers	19,244	3,660	(8,565)	777	15,116
Total	**518,588**	**-**	**583**	**3,584**	**522,755**

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13. Loans and advances to customers (continued)

Impairment allowance	Balance at January 1, 2019	Transfer	Increases/ Decreases	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2019
Stage 1 12 M expected credit losses						
Loan and advances to customers	(8,559)	240	(2,092)	5,003	(1)	**(5,409)**
Stage 2 Lifetime ECL not credit impaired						
Loan and advances to customers	(3,278)	452	533	1,269	(20)	**(1,044)**
Stage 3 Lifetime ECL - credit impaired						
Loan and advances to customers	(13,657)	(692)	1,461	2,058	(212)	**(11,042)**
Total	**(25,494)**	**-**	**(98)**	**8,330**	**(233)**	**(17,495)**

Gross carrying amount	Balance at January 1, 2018	Transfer	Increases/Decreases (including Write-offs)	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses					
Loan and advances to customers	470,175	(13,405)	25,398	(306)	481,862
Stage 2 Lifetime ECL not credit impaired					
Loan and advances to customers	14,145	7,063	(3,585)	(141)	17,482
Stage 3 Lifetime ECL - credit impaired					
Loan and advances to customers	22,107	6,342	(9,696)	491	19,244
Total	**506,427**	**-**	**12,117**	**44**	**518,588**

Impairment allowance	Balance at January 1, 2018	Transfer	Increases/ Decreases	Change in model risk parameters	Foreign exchange and other movements	Balance at December 31, 2018
Stage 1 12 M expected credit losses						
Loan and advances to customers	(9,668)	(173)	(1,494)	2,776	-	**(8,559)**
Stage 2 Lifetime ECL not credit impaired						
Loan and advances to customers	(2,787)	616	200	(1,316)	9	**(3,278)**
Stage 3 Lifetime ECL - credit impaired						
Loan and advances to customers	(13,591)	(443)	1,338	(1,060)	99	**(13,657)**
Total	**(26,046)**	**-**	**44**	**400**	**108**	**(25,494)**

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13. Loans and advances to customers (continued)

	2019			2018		
	Gross amount	**Impairment allowance**	**Net amount**	**Gross amount**	**Impairment allowance**	**Net amount**
Retail customers:						
Overdrafts	2,312	(181)	2,131	2,004	(232)	1,772
Credit cards	21	(7)	14	229	(27)	202
Private loans	5,871	(2027)	3,844	4,088	(117)	3,971
Home improvement	95,711	(2,376)	93,335	119,970	(3,716)	116,254
Corporate customers:						
Overdrafts	29,603	(1,096)	28,507	29,254	(1,444)	27,810
Up to EUR 150 thousand	96,161	(6,295)	89,866	135,726	(13,209)	122,517
Above EUR 150 thousand	293,076	(5,513)	287,563	227,317	(6,749)	220,568
	522,755	**(17,495)**	**505,260**	**518,588**	**(25,494)**	**493,094**

The movements in the impairment allowances for loan losses at 31 December 2019 were as follows:

	2019	2018
At 1 January	25,494	26,422
Release for the year	(8,453)	(584)
Unwinding of discount	(167)	(188)
Loans written-off	621	(156)
At 31 December	**17,495**	**25,494**

In charge of the year are included EUR 20,177 thousand income from reversal of loan loss provision (2018: EUR 9,021 thousand), EUR 4,100 thousand recovery amount of written-off loans (2018: EUR 4,484 thousand) and loan loss provision expense EUR 11,730 thousand (2018: EUR 8,437 thousand).

At 31 December 2019, the loan portfolio includes loans to employees of the Bank of EUR 737 thousand (2018: EUR 674 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. Investment securities measured at FVOCI

	2019	2018
Shares in companies located in OECD countries	-	-
Investment securities measured at FVOCI	87,010	84,626
Impairment allowance	(11)	(21)
Total	**86,999**	**84,605**

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following:

	2019	2018
Loss allowances as of 01 January	21	-
Transfer to IFRS 9 effect	-	71
New financial assets originated	-	-
Release due to derecognition	(18)	-
Increase/Decrease in credit risk	8	-
Charge to profit and loss	-	(50)
Closing balance	**11**	**21**

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15. Intangible assets

	Software
Cost	
At January 2018	6,891
Additions	356
Disposals	-
At 31 December 2018	**7,247**
Additions	9
Disposals	(1)
At 31 December 2019	**7,255**
Accumulated depreciation	
At 1 January 2018	**6,807**
Charge for the year	407
Disposals	-
At 31 December 2018	**7,214**
Charge for the year	22
Disposals	(1)
At 31 December 2019	**7,235**
Net carrying value	
At 31 December 2018	**33**
At 31 December 2019	**20**

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16. Property and equipment

in '000 EUR	**Land and buildings**	**Business and office equipment**	**Land and buildings (ROU)**	**Total PPE**
Total acquisition costs as of 1 January 2019	14,708	10,098	-	24,806
Additions	779	457	2,542	3,778
Disposals	(6,867)	(760)	-	(7,628)
Total acquisition costs as of 31 December 2019	**8,620**	**9,793**	**2,542**	**20,955**
Accumulated depreciation as of 1 January 2019	(3,599)	(6,705)	-	(10,304)
Depreciation	(236)	(1,426)	(401)	(2,063)
Disposals	2,260	567	-	2,827
Impairment	-	(1,062)	-	(1,062)
Accumulated depreciation as of 31 December 2019	**(1,575)**	**(8,625)**	**(401)**	**(10,601)**
Net book value	**7,045**	**1,168**	**2,141**	**10,354**

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16. Property and equipment (continued)

in '000 EUR	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition costs as of 1 January 2018	15,436	13,738	-	29,174
Additions	198	664	-	862
Disposals	(926)	(4,304)	-	(5,230)
Total acquisition costs as of 31 December 2018	**14,708**	**10,098**	**-**	**24,806**
Accumulated depreciation as of 1 January 2018	(3,784)	(9,087)	-	(12,871)
Depreciation	(361)	(1,697)	-	(2,058)
Disposals	546	4,079	-	4,625
Accumulated depreciation as of 31 December 2018	**(3,599)**	**(6,705)**	**-**	**(10,304)**
Net book value	**11,109**	**3,393**	**-**	**14,502**

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17. Other financial assets

	2019	2018
Accrued account maintenance fees	335	486
Security deposits	579	-
Receivables from financial institutions	596	960
Receivables from clients (Not related to lending)	562	1,061
Other assets	287	220
Impairment allowance	(40)	(59)
	2,319	**2,668**

Movement in impairment for the years ended December 31, 2019 and 2018, charged to profit and loss is as following:

	2019	2018
Loss allowances as of 01 January	59	-
Transfer to IFRS 9 effect	-	183
New financial assets originated	-	-
Release due to derecognition	(59)	-
Increase/Decrease in credit risk	40	-
Charge to profit and loss	-	(124)
Closing balance	**40**	**59**

18. Other assets

	2019	2018
Prepaid expenses	359	439
Year-end clearance accounts	362	309
Inventories and advances	541	76
Repossessed assets	-	1,014
	1,262	**1,838**

19. Due to banks

	2019	2018
Current accounts	715	478
	715	**478**

20. Due to customers

	2019	2018
Current accounts	421,451	431,527
Saving accounts	143,927	144,192
Term deposits	103,837	58,317
Other customer accounts	3,898	5,331
	673,113	**639,367**

Balances due to customers (current accounts, savings and term deposits) include an amount of EUR 6,525 thousand (2018: EUR 6,429 thousand) that represents cash collateral obtained for loans, guarantees, letters of credit and payment orders on behalf of customers.

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20. Due to customers (continued)

The published annual interest rates at 31 December 2019 and 2018 were as follows:

	2019	2018
Saving accounts	0.3%	0.3%
Time deposits:		
- Six months	n/a	n/a
- One year	0.50%	0.25%
- Two years	0.70%	0.40%
- Three years	1.00%	0.50%
- Four years	n/a	n/a
- Five years	n/a	n/a

Current accounts do not generally bear interest.

21. Other financial liabilities

	2019	2018
Accrued expenses	177	131
Suppliers payable	920	486
Due to related parties	302	91
Pension contribution payable to Kosovo Pension Fund	37	56
	1,436	**764**

22. Other liabilities

	2019	2018
Provision for untaken vacation	120	148
Provision for litigation cases	857	831
Provision for guarantees	453	847
Lease liabilities	2,184	-
Other	1,205	459
	4,819	**2,285**

Movement in other liabilities is presented as follow:

	2019	2018
Balance on January 1,	2,285	2,747
Provision charge for: untaken vacation, legal cases, guaranties, and other	2,251	1,892
Lease liability	2,184	-
Release of provisions	(1,901)	(2,354)
Closing balance at 31 December	**4,819**	**2,285**

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23. Borrowings and subordinated debt

	2019	2018
Borrowed funds from European Investment Bank (EIB) and EBRD	19,906	10,034
Subordinated debt from ProCredit Holding AG & CO.KGaA	7,538	7,644
	27,444	**17,678**

Included in term deposits is also the accrued interest of term deposits and borrowings and subordinated debts. Movements in interest accrued as at 31 December 2019 and 2018 are presented below:

	2019	2018
Opening balance	582	1,223
Interest expense	1,957	1,009
Interest paid	(1,622)	(1,650)
Closing balance	**917**	**582**

Based on an agreement with the European Investment Bank (EIB) signed on November 2013, EUR 10,000 thousand (2018: EUR 10,000 thousand) was obtained and as per agreement, the purpose of these funds is to finance projects that are undertaken by small and medium sized enterprises.

Based on the agreement with European Bank for Reconstruction and Development (EBRD) signed on December 2018, EUR 10,000 thousand was obtained during 2019 according to the agreement in relation to Small & Medium-sized Enterprises Competitiveness Support Programme.

Subordinated debt of EUR 7,500 thousand (2018: EUR 7,500 thousand) was obtained from ProCredit Holding AG & CO.KGaA under the extension of the initial subordinated loan agreement signed on September 2014. The extension was signed on November 2019. The subordinated debt of EUR 7,538 thousand (2018: EUR 7,644 thousand) at 31 December 2019, includes the principal and accrued interests.

Pursuant to the approval granted by the Central Bank of the Republic of Kosovo, the subordinated debt was classified as Tier II capital and included in the regulatory capital of the Bank

24. Shareholder's equity and reserves

Share capital At 31 December 2019 the authorised share capital comprised 12,269,242 ordinary shares (2018: 12,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	Number of shares	In EUR	%
ProCredit Holding	12,269,242	61,346,210	100
	12,269,242	**61,346,210**	**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 (2018: 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 of CBK.

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24. Shareholder's equity and reserves (continued)

Fair value reserve The fair value reserve includes the cumulative net change in the fair value of Investment Securities measured at FVOCI , until the investment is derecognised or impaired. The movements in the fair value reserve are presented as follows:

	2019	2018
Balance at 1 January	49	188
Revaluation losses reserve for Investment Securities measured at FVOCI	(35)	72
Revaluation gains reserve for Investment Securities measured at FVOCI	149	(250)
Deferred taxes on revaluation reserve for Investment Securities measured at FVOCI	(11)	18
Allowance for impairment	(11)	21
Balance at 31 December	**141**	**49**

Dividends paid Dividends of EUR 17,000 thousand in total or EUR 1.39 per share (2018: EUR 20,000 thousand or EUR 1.63 per shares) were approved in November and paid to the sole shareholder in December 2019.

25. Related party transactions

The ProCredit Group (the 'Group') is made up of development-oriented commercial banks operating in the South Eastern and Eastern Europe and South America, as well as a bank in Germany. The Parent company of the Group is ProCredit Holding, a Frankfurt based entity which guides the Group. The Group does not have an ultimate controlling entity. At a consolidated level the Group is supervised by the German Federal Supervisory Authority (BaFin) and Deutsche Bundesbank. The ProCredit Group aims to combine high development impact with commercial success for its shareholders.

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 2019 and 2018 are as follows:

	Relationship	2019	2018
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities under common control	3,793	2,941
Financial assets due from other ProCredit banks	Entities under common control	78	110
Financial assets due from Quipu GmbH	Entities under common control	1	5
Other financial assets	Entities under common control	-	17
		3,872	**3,073**
Liabilities due to:			
Due to other ProCredit banks	Entities under common control	491	317
Financial liabilities to other ProCredit banks	Entities under common control	57	65
Financial liabilities to Quipu GmbH	Entities under common control	349	142
Due to Quipu GmbH	Entities under common control	48	99
Due to ProCredit Holding AG & Co. KGaA	Parent Company	70	35
Subordinated debt from ProCredit Holding AG & Co. KGaA	Parent Company	7,538	7,644
		8,553	**8,302**

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25. Related party transactions (continued)

At 31 December 2019, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2018: EUR 15,000 thousand), maturing on 29 March 2020 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

	Relationship	2019	2018
Income from:			
Interest income from ProCredit banks	Under common	26	(10)
Other income from ProCredit Group	control	240	337
		266	**327**
Expenses:			
The Parent: Interest expenses for subordinated debt		487	504
The Parent: Other administrative expenses	Parent	699	1,138
The Parent and academies: Training expenses	Company	510	573
The Parent: commitment fees		730	714
Quipu GmbH: IT services	Under common	2,162	1,662
Quipu GmbH: Card processing fees	control	856	1,103
		5,444	**5,694**

Key management remuneration:	**2019**	**2018**
Salaries	176	182
Short-term pension contributions (mandatory scheme)	9	9
Personal income tax	16	17
	201	**208**

26. Commitments and contingencies

	2019	2018
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	58,270	62,343
International guarantees	23,498	19,021
Local guarantees	12,790	11,282
Letters of credit	213	1,152
Less: Provisions recognised as liabilities	(453)	(847)
	94,318	**92,951**
Credit commitments		
Unused credit card facilities	1,547	2,033
Unused overdraft limits	30,406	31,002
Non-disbursed loans tranches	6,561	12,235
Unused portion of credit lines	19,756	17,073
	58,270	**62,343**

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 2019 except for those already provided for (Note 22).

27. Events after the end of the reporting period

On December 2019, an outbreak of a new strain of coronavirus, COVID-19, emerged and within weeks, despite the efforts to contain the virus isolated, it widespread and it had an impact on shutdowns of cities and businesses globally and the number of those infected grew significantly, including Kosova. On 11 March 2020, the World Health Organization announced a pandemic situation due to the global emergency caused by the outbreak of COVID 19. The coronavirus outbreak is still evolving and its effects remain unknown. For further details please refer to the Note 2 “Use of estimates and judgments”.

No other material events subsequent to the reporting date have occurred which require disclosure in the financial statements.