ProCredit Bank

Kosova

Annual Report 2015

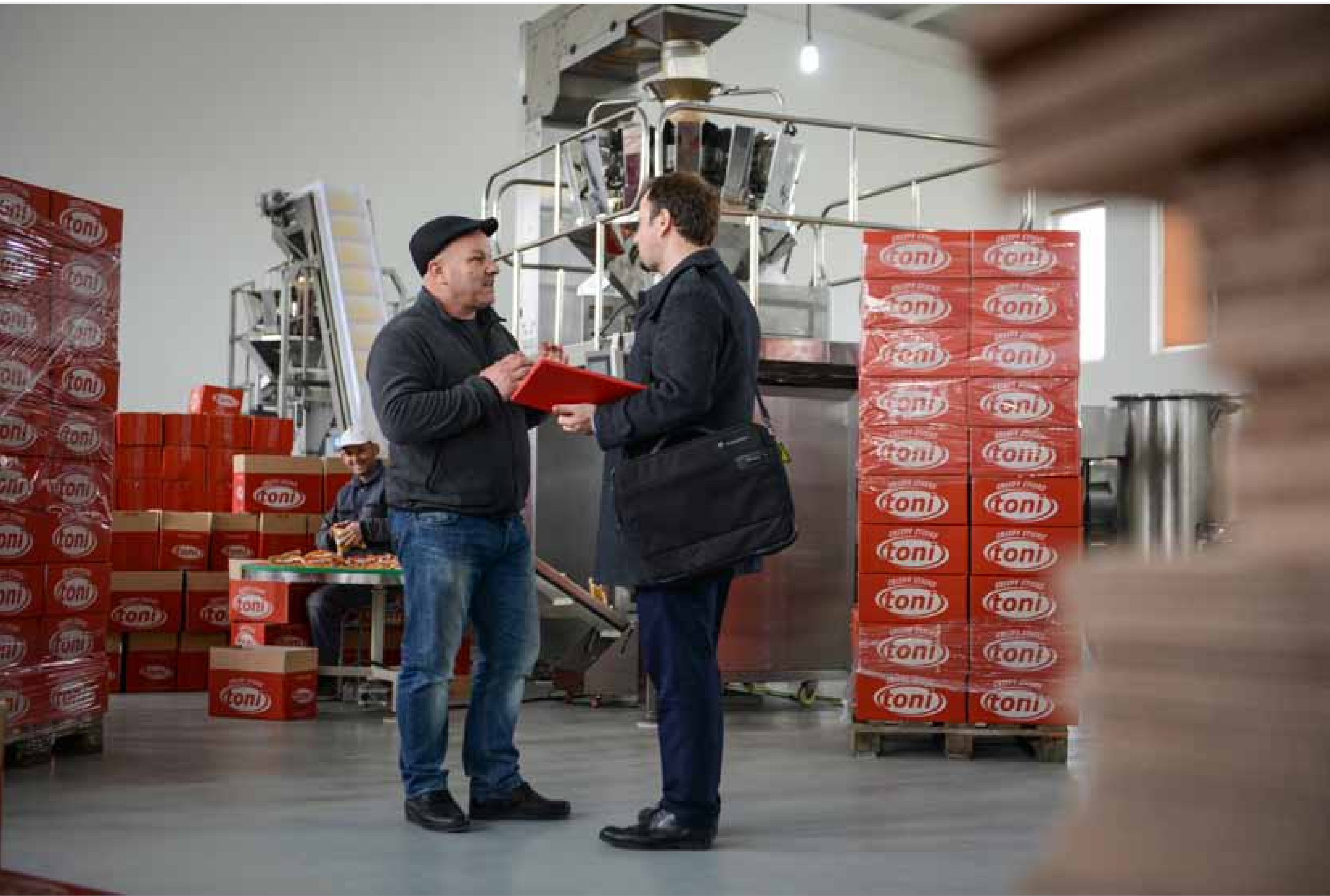
Content

Mission Statement

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

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

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

It is clear from mission statement that the aim of ProCredit group is to set standards in the financial sectors in which we operate. We want to make difference – through the target group we serve, through the quality of our financial services, and through the business ethics upon which we base our actions.

Our corporate values from the foundation of our business ethics. The following principles guide the operation of the ProCredit institutions.

Transparency: We provide transparent information to our clients, to our employees.

For example, we ensure that costumer fully understand the terms of the contracts they conclude with us. And we engage in financial education in order to raise public awareness of the dangerous of in transparent financial offers.

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

Social responsibility and tolerance: We offer to our client's sound, well – founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and repayment capability in order to avoid over – ineptness and to provide appropriate financial services. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, color, language, gender or religious beliefs.

We also ensure the request for loans are evaluated in terms of the applicant's compliance with our ethical business practices. No loans are issued to enterprises or individuals if it is suspected they are making use of unsafe, environmental harmful or morally objectionable forms of labor in particular labor.

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 for all employees in the ProCredit group at all times and any breaches of this principle are swiftly and rigorously dealt with.

Management Board
from left:

Ilir I. Aliu
Chief Executive Officer

Eriola Bibolli
Deputy Chief Executive Officer

Fundamental Information about the bank

Shareholder	Amount of nominal value (EUR)	Number of shares	në %
ProCredit Holding	61,346,210	12,269,242	100
Totali	61,346,210	12,269,242	100

ProCredit Holding is the parent company of a global group of ProCredit banks, operating in Eastern Europe and Latin America, as well as a bank in Germany. ProCredit Holding was founded as Internationale Micro Investitionen (IMI) in 1998 by the pioneering development finance consultancy company IPC.

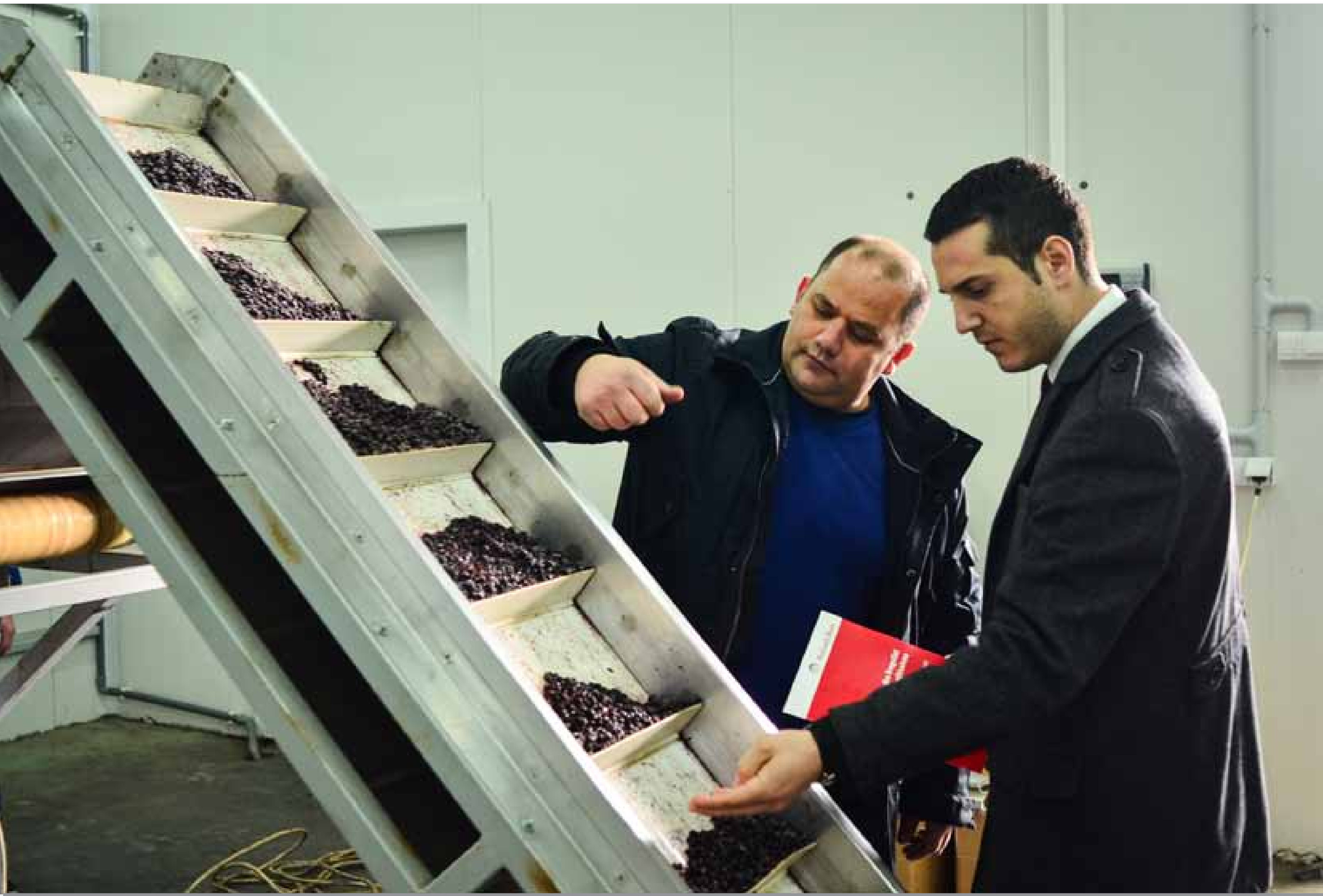
ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for very small, small and medium-sized businesses as well as the general population in their countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity, including banking operations, human resources and risk management. 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.

IPC is the leading shareholder and strategic investor in ProCredit Holding. IPC has been the driving entrepreneurial force behind the ProCredit group since the foundation of the banks.

ProCredit Holding is a public-private partnership. In addition to IPC and IPC Invest (the investment vehicle of the staff of IPC and ProCredit), the other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund and the Swiss investment fund responsAbility. The public shareholders of ProCredit Holding include KfW (the German promotional bank), IFC (the private sector arm of the World Bank), FMO (the Dutch development bank), BIO (the Belgian Investment Company for Developing Countries) and Proparco (the French Investment and Promotions company for Economic Cooperation).

The legal form of ProCredit Holding is a so-called KGaA (Kommanditgesellschaft auf Aktien, or in English a partnership limited by shares). This is a legal form not uncommonly used in Germany which can basically be regarded as a joint stock company in which the role of the management board is assumed by a General Partner, and in which the General Partner has consent rights over certain key shareholder decisions. In the case of ProCredit Holding, the General Partner is a small separate company which is owned by the core shareholders of ProCredit Holding AG & Co. KGaA: IPC, IPC Invest, DOEN, KfW and IFC. The KGaA structure will allow ProCredit Holding to raise capital in the future without unduly diluting the influence of core shareholders in ensuring the group maintains dual goals: development impact and commercial success.

Business segments



Business clients

We are highly committed to providing high-quality banking services to our Small and Medium business clients. In line with this strategy, the bank focused on developing good and long-term relationships with business clients in 2015. Therefore, in addition to providing lending services, we heavily promoted other banking services, including ele¬ctronic services, to benefit our clients. One of our main innovations was the introduction of 24/7 Zones, our state-of-the-art self-service areas, which provide greater flexibility and efficiency to our business clients; they can access the high-tech equipment at any time, without being limited by the business hours of the bank. The 24/7 Zones offer ATM deposits/withdrawals, Drop Boxes, Pay-Boxes, Transfer Corners, e-Banking Corners, Info Corners, and a direct line to the bank's Call Centre.

Furthermore, as a result of building long-term relationships with our business clients and developing our banking infrastructure, more than 75% of cash deposits in December 2015 were performed through automated channels. This enabled our Client Advisers to devote more time to providing higher-quality services and advice to our business clients. As a result, deposits from business clients increased by 18% in 2015.

In addition, we continued to provide training for our Business Client Advisers, who play a key role in building long-term relationships with business clients. They specialise in providing personalised advice based on the needs of each business and recommending appropriate products and services.

In keeping with our aim of promoting general economic development in Kosovo, we again focused on investment lending, encouraging business clients – and manufacturing companies in particular – to borrow for investment purposes. During 2015, more than 35% of total disbursements were investment loans. The European Investment Bank (EIB) and the European Investment Fund (EIF) played a crucial role in this regard by providing guarantees aimed at stimulating investments for our business clients.

In 2015, the bank disbursed a total of 683 new business loans, increasing the business portfolio by EUR 24.8 million, where the total volume of business loans reached EUR 328.7 million by the end of the year.

Local agricultural producers and food processors are very important clients for ProCredit Bank: they play a key role in the agricultural value chain and thus contribute to long-term, sustainable development of the agricultural sector in general. In 2015, the bank focused on long-term agricultural capital investment projects, such as those dedicated to expanding farm capacities, building facilities for storing local products, mod¬ernising agricultural machinery (through our agri-business partners), building new greenhouses, purchasing arable land, etc. As a result of raising the minimum credit exposure to EUR 10,000, the total agro portfolio grew by EUR 5.3 million to EUR 44 million, with credit exposures over EUR 10,000 increasing by EUR 12.4 million.

As a financial institution that takes pride in being socially responsible, ProCredit Bank is especially committed to complying with environmental standards. The bank continued to provide green loans, a term that refers to all financial services for investments in energy-saving, renewable energy sources and other environmentally friendly measures.

In previous years, such investments were more frequently undertaken by private clients, who primarily invested in insulating their houses. In 2015, however, our objective was to encourage business clients to undertake these sorts of investments, with particular emphasis on upgrading to more energy efficient manufacturing machinery and measures that would lessen water or air pollution. As a result, the percentage of green loans in the total business client portfolio was 5%, or EUR 16 million, by the end of the year.

We will continue to evolve our services to provide further benefits to our business clients. In addition to supporting short- and medium-term business investments, our particular focus for 2016 will be to continue to support and stimulate long-term investments, particularly with regard to manufacturing businesses

Private clients

We make continuous efforts to design banking services that help our private clients to manage their finances more easily. Oriented towards provision of professional advice, financial education, and responsible lending, ProCredit Bank continues to support private clients' investment projects, which directly contributes to the enhancement of their quality of life. To this end, in 2015 we mainly focused on financing clients who invested in purchasing immovable properties, boosting the mortgage loan portfolio by 27% over the previous year.
A responsible approach to environmental protection is an important part of ProCredit Bank's social commitment and an integral value in our banking philosophy. We therefore continued to firmly support our clients who have invested in measures that contribute to environmental protection and saving energy. In 2015, the green loan portfolio increased by 17% as compared to 2014. Green loans encompass all financial activities related to saving energy, using renewable energy sources, and other environmentally friendly measures.

Although 2015 was characterised by strong competition in the field of lending to private clients, ProCredit Bank managed to maintain the quality of the private client loan portfolio, which consists of mortgage loans, green loans, renovation loans, education loans, personal loans, overdrafts and credit cards.

Our clients have demonstrated their confidence in ProCredit Bank by continuing to entrust their funds to us, as evidenced by the sustained high level of deposits, especially in savings accounts. Private client deposits continued to account for the majority of bank deposits, or 72.7% of the total volume of EUR 672 million. The composition of the 2015 deposit portfolio, in terms of current accounts, savings accounts and term deposit accounts, was 44%, 38% and 18%, respectively. At the same time, the bank continued to regularly emphasise the importance of saving, a crucial factor in achieving financial stability for our clients

Electronic banking channels

In order to better meet the needs of our clients, we upgraded our 24/7 Zones to provide faster, more secure banking services.

The goals and objectives we set were much more ambitious than before, and thanks to the efforts of various departments, the project was mostly finished by the end of the year, with the exception of three zones.

The introduction of 24/7 Zones throughout all the major cities and towns in Kosovo enabled the bank to push a unique concept of electronic banking on the national level, and the results can already be seen from the upwards trend with regard to the use of electronic banking channels.

In particular, the addition of cash-in ATMs led to a major shift towards electronic deposit transactions. The number of ATM deposits increased tenfold year-on-year, with an even higher increase in volume. ATMs were increasingly used by businesses to make deposits, which was facilitated by a special limited card product which enables users to independently make deposits, along with the addition of other functionalities to the devices. To satisfy the needs of our Medium business clients, we also installed drop-boxes in more 24/7 Zones to allow for larger deposits.

ATM cash withdrawals, an area in which we were already well established, also increased. The overall volume of withdrawals grew significantly, helped by the increase in the limits, first from EUR 500 to EUR 1,000, and then to EUR 2,000. Procedures to allow withdrawals of up to EUR 10,000 in the 24/7 Zones were also tested during the year; they are now ready for wider implementation in 2016.

E-Banking continued to grow in the share of overall bank transfers, with important updates that will make it useful for a wider range of clients. The development of a limited version, E-Statements, which can be used to check account statements without a token, was especially meant to reduce the number of visits to bank outlets for simple banking needs.

Risk management

ProCredit Bank's core business consists of serving Small and Medium business clients as well as private clients who would like to save.

Thus, classical credit risk (i.e. the risk that borrowers will be unable to meet their contractually agreed obligations towards the bank or will only be able to meet them in part) is the greatest risk we face as a bank. Therefore, credit risk accounts for the largest share of risk when calculating risk-bearing capacity.

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

To manage and mitigate credit risk, the bank performs intensive analyses of the debt capacity of clients, avoids over-indebting clients, closely monitors credit exposures, manages problem credit exposures, implements carefully designed and well documented processes, applies the "four eyes principle", builds personal and long-term relationships with clients and maintains regular contact with them, and invests in measures to ensure that staff are well trained and highly motivated.

Moreover, credit risk is further mitigated by the diversification of the loan portfolio. An integral part of our Credit Risk Management Policy, diversification entails spreading our business across a wide range of economic sectors, client groups, and SMEs, as well as private individuals and institutions.

Another aspect of our approach is that we seek to provide to clients with simple, easy to understand products. Both the high degree of diversification and our simple, transparent products and procedures serve to reduce the overall risk profile.

Different methods of credit risk management are applied when dealing with different categories of clients and credit exposures. For example, whereas we apply a strict segregation of duties when approving Small and Medium credit exposures, we apply standardised processes for lending to Very Small business clients as well as private clients. Similarly, the information on which we base our credit analysis and credit decisions differs for different types of credit exposure, and we impose different collateral requirements depending on the documentation provided by the client, the size of the loan being requested, and the client's credit history. Furthermore, the evaluation of collateral is conducted by external licensed companies, which decreases the collateral value estimation risk

Considering the fact 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 with the early warning indicators enables the bank to immediately respond to any sign of potential default. Nonetheless, for the majority of 2015, the key indicator for the quality of the loan portfolio and for measuring classical credit risk was the PAR>30 days, considering only the overdue of payment of interest or principal by more than 30 days. In 2015 the bank's overall PAR>30 days decreased. The steepest fall in PAR occurred in the category of business loans greater than EUR 250,000 (Medium business exposures) and loans up to EUR 250,000 (Small business exposures). According to figures published by the Central Bank of Kosovo, ProCredit Bank's level of non-performing loans (NPL) is better than the average NPL of the banking sector as a whole.

ProCredit Bank Kosovo takes a conservative approach to loan loss provisioning. Allowances for individually significant exposures with signs of impairment are set aside based on the results of an individual assessment of impairment, while provisioning for impaired loans that are not individually significant is calculated according to historical default rates. For all unimpaired credit exposures, portfolio-based allowances for impairment are made. At the end of the year the coverage ratio (loan loss provisions according to the CBK, as a percentage of PAR>30 days) stood at 121%, and the coverage ratio of non-performing loans (NPL), stood at 118%. Loans considered to be irrecoverable are consistently written off. Nonetheless, recovery efforts continue even after a loan has been written off, and collateral collection is rigorously enforced.

Counterparty and issuer risk

In order to manage liquidity risk management and other operational activities, such as the execution of transfers, ProCredit Bank invests and holds a portion of its assets in liquid form to other parties, including issuers of securities. In this case the bank is exposed to the risk of this exposure, i.e. the risk that these parties may not be willing or capable of meeting their obligations towards the bank.

However, we actively and carefully manage these risks through our Counterparty and Issuer Risk Management Policy, Treasury Policy, Investment Policy, and others. These policies define the processes for selecting counterparties and setting exposure limits, as well as permitted transactions and the rules for processing them.

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

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

Liquidity risk

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

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

As part of liquidity management, the bank has defined and continuously monitors its liquidity indicators. In addition, we regularly conduct liquidity stress tests based on defined scenarios that help us to analyse our liquidity positions in the event of potential internal or external shocks.

ProCredit Bank had a very satisfactory level of liquidity due to the high level of highly liquid assets; at the end of 2015, the highly liquid assets indicator stood at a robust 46%.

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

Currency risk

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

As we hold no speculative open currency positions, ProCredit Bank has a low level of exposure to currency risk. At year-end 2015, the bank had an open currency position of 0.21% of Tier 1 capital, in line with the CBK's requirements.

Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously. The limits established for this risk were not exceeded at any point during 2015. Therefore, foreign currency risk is considered to be low and is expected to continue to be stable.

Interest rate risk

Interest rate risk arises from structural differences between the repricing maturities of 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 for a longer period, thus decreasing the margin.

The bank has a relevant policy in place for this risk. We continuously analyse the maturity gap (based on re-definition of prices) between assets and liabilities. In addition, the bank applies stress tests by simulating interest rate fluctuations in order to measure the influence on economic value and interest income. The results of such analyses are regularly reported to the Risk Management Committee at bank level and to the Board of Directors. The exposure to interest rate risk was within the approved limits throughout 2015.

Capital adequacy

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

The bank was well capitalised throughout 2015, maintaining capital adequacy ratios above the limits set out in the bank's own policies and in banking regulations. At the end of the year, the total capital adequacy ratio stood at 18.9%, which significantly exceeds the minimum ratio of 12%. Furthermore, the Tier 1 capital adequacy ratio was 15.8%, which likewise exceeds the 8% minimum ratio set by the CBK.

In 2015, Fitch Ratings upgraded the overall classification of ProCredit Bank to “B+”.

Operational risk and fraud

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

To mitigate operational risk and fraud, all of the bank's major processes are properly documented and contain control mechanisms. The dual control principle and the division of tasks between departments and functions are applied wherever necessary and appropriate in the bank's systems and processes.

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

The bank uses a risk event database to ensure that operational risks and cases of fraud are addressed in a systematic manner and that a record is kept of corrective and preventative measures.
As part of its operational risk management and fraud framework, the bank makes regular assessments of processes to identify potential risks and control deficiencies which can be addressed with appropriate measures. Moreover, material changes in the bank's processes and services, both new and current, are submitted to a review to detect any possible risks and are subject to approval. In addition, key risk indicators are monitored on a regular basis.

Anti-money laundering

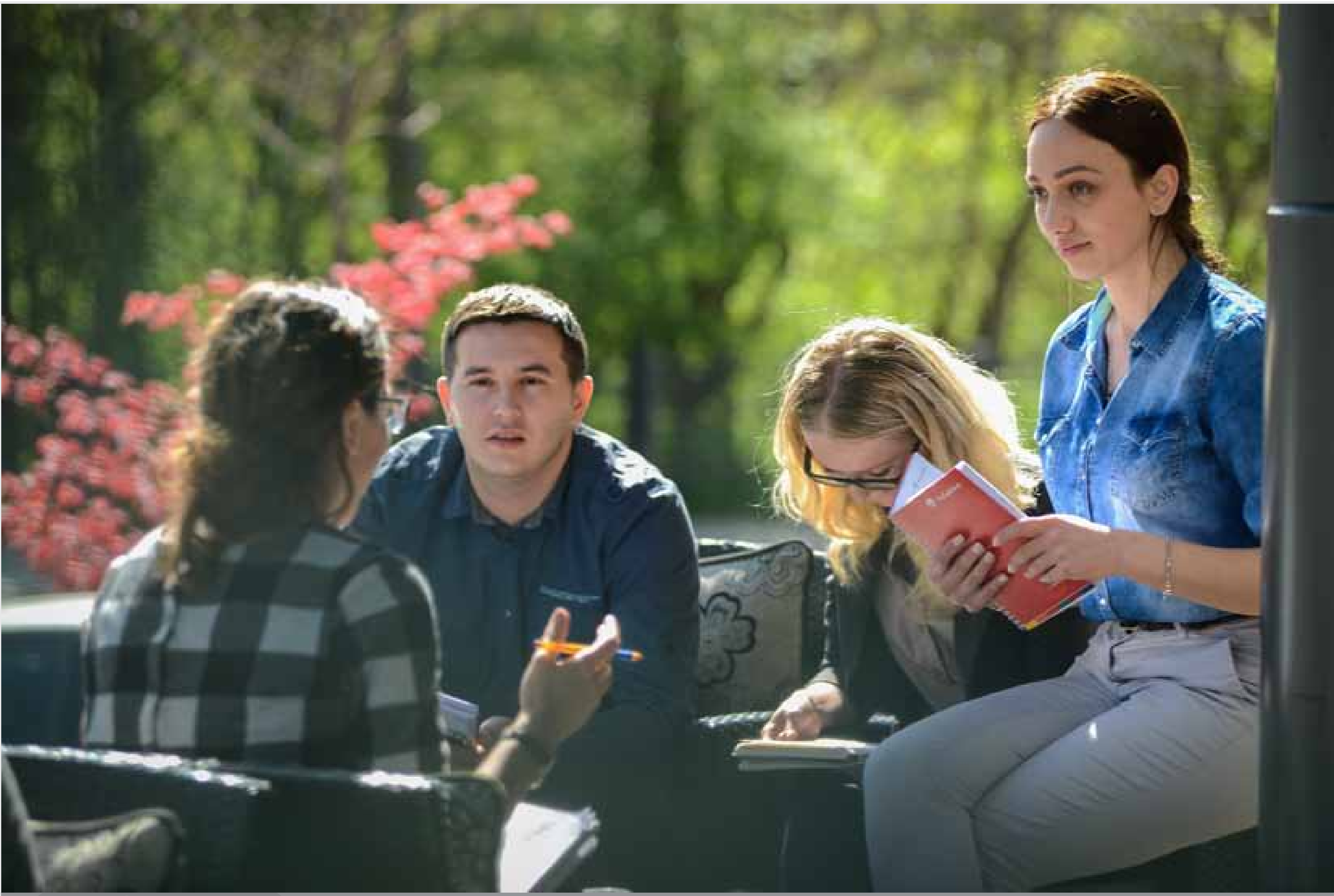
An integral part of our business model and social mission is adhering to the highest ethical values. ProCredit Bank Kosovo actively supports the fight against money laundering and terrorist financing. Its policies and procedures against money laundering are designed to ensure that the institution complies with the requirements and obligations set forth in national legislation, as well as regulations, industry rules and guidelines for the financial services sector established by the Central Bank of the Republic of Kosovo; this includes the requirement to have adequate systems and controls in place to reduce the risk that the bank's services may be used to facilitate money laundering, terrorist financing or financial crimes. In addition to adhering to local policies, the bank has also implemented the ProCredit group's policy on fighting money laundering, in line with the requirements established in German and EU legislation.

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

In accordance with Law 03/L-196 on the Prevention of Money Laundering and Terrorist Financing and Law 04-L-178 on Amending and Supplementing Law 03/L-196, any cash transaction exceeding EUR 10,000 (including multiple transactions that add up to a total of EUR 10,000) is reported to the Financial Intelligence Unit (FIU-K). Moreover, any attempt to execute transactions which give rise to suspicion of money laundering, terrorist financing or any other criminal activity is also reported to the FIU-K.

At ProCredit Bank, responsibility for combatting money laundering lies with the Anti-Money Laundering Unit, which consists of four Anti-Money Laundering Officers who support the Head and Deputy Head of the unit. In cooperation with Group Anti-Money Laundering Department, the bank's AML Unit conducts a risk assessment on an annual basis and updates the Anti-Money Laundering Policy as necessary.

An important part of our AML programme is training, as the successful implementation of measures against money laundering and terrorist financing in the bank is directly dependent on the quality of the training our bank staff receives in these areas. Therefore, in addition to the members of the AML Unit, all bank staff receive intensive (national and international) training on the most recent updates in the fields of anti-money laundering and the fight against terrorist financing.



Staff and staff development

ProCredit Bank wants to make a difference in the market, not only in terms of the quality of the financial services we provide, but also in terms of staff quality. Therefore, the bank continually invests in human resources development. We pay special attention to the recruitment and selection process, and provide regular training to our existing staff, as we believe that the competence and commitment of our staff is crucial for providing high-quality customer service in a responsible manner.

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

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

ProCredit academies and language centres

Advanced training courses are conducted at ProCredit's regional Academy in Veles, Macedonia and at the group Academy in Fürth, Germany. As English is the second working language at ProCredit Bank, English language courses are provided to staff at various levels. This year alone, 56 employees attended English courses at the academies.

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

In 2015, twelve managers from PCB Kosovo graduated from these academies: ten from the regional academy in Macedonia and two from the ProCredit Academy in Germany. Another eighteen employees are currently attending courses at the academy in Germany, and eight employees are attending courses at the academy in Macedonia.

Specialised training

Growing with our clients as well as understanding their financial needs and their business is at the heart of our business model. Therefore, we continued to provide specialised courses for our Business Client Advisers on satisfying clients' needs and providing them with the best service. The courses started in 2014 and continued through 2015.

At the same time, all of our Client Advisers received training to further enhance operational efficiency, enabled by the bank's investment in cutting edge technology, and to better educate the clients about using a wide range of channels for their banking needs, especially electronic channels.

Other training

Other courses held during 2015 included leadership training, Business and Private Client Adviser training and green financing training. Overall, ProCredit Bank Kosovo invested approximately EUR 765,000 in staff training and development in 2015. The bank is continuing to invest in staff development by building the new training centre in Prizren Prevallë.

Young Bankers Programme

The Young Bankers Programme (YBP) was conducted for the fifteenth time in 2015. This international programme is organised in Kosovo with candidates from Kosovo and the region.

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

Programme structure

We believe that everyone is capable of learning what they do not already know. Therefore, ProCred¬it Bank offers the Young Bankers Programme, a unique opportunity for can¬didates with different profiles to develop compre¬hensively and gain employment. We believe that the role of banks in society should go beyond the economic impact on the country.

The YBP challenges candidates to grow, offering courses covering more general topics, such as the ProCredit philosophy of doing business, the role of financial intermediation and education in the development of a country, our approach to environmental pro¬tection; the impact of globalisation on how a soci¬ety operates, and many other topics, including our code of ethics and socially responsible approach.

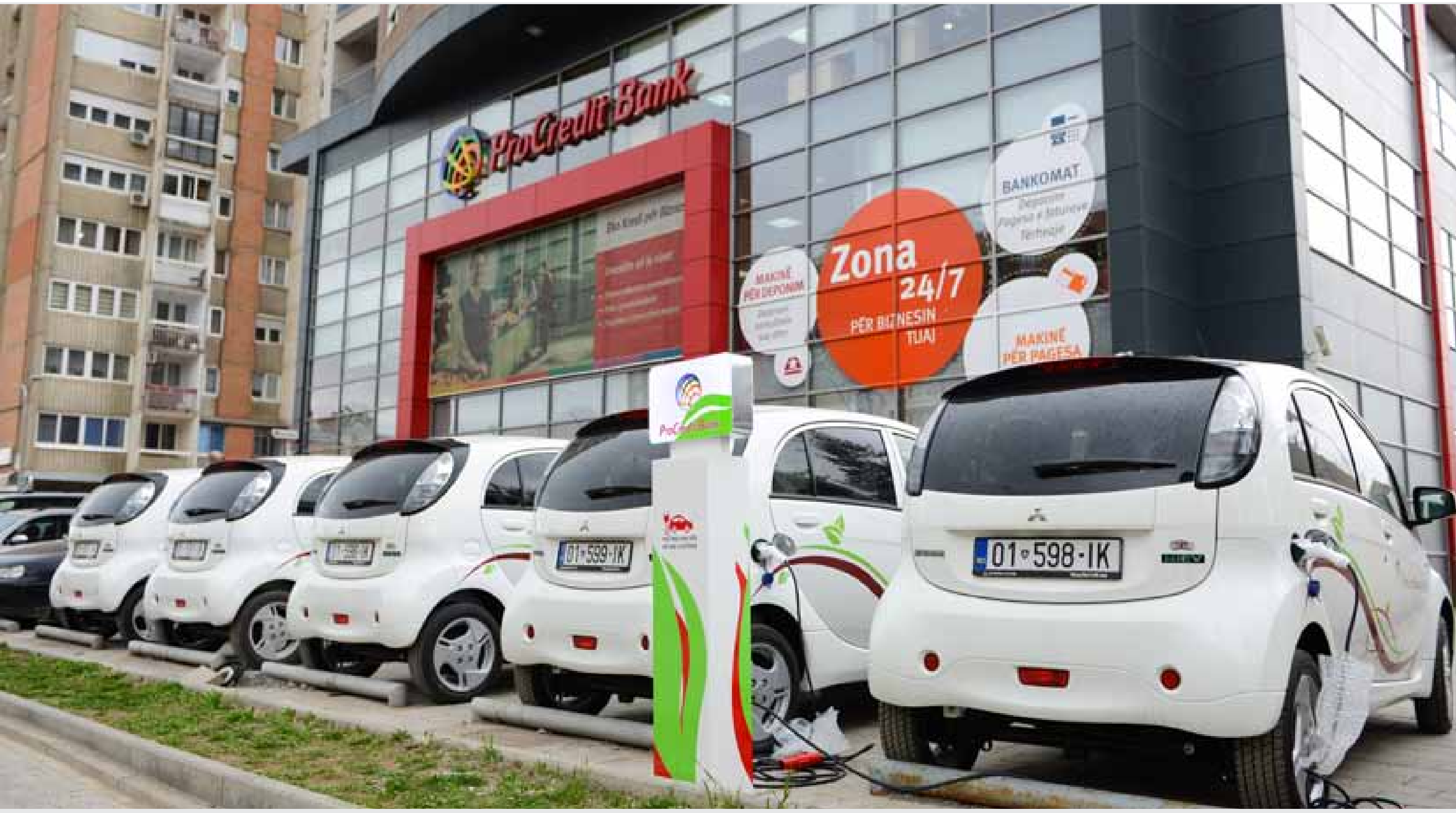
What makes the programme unique and attractive is the manner in which these topics are explored: interactive learning, open discussion, group work and projects are part of the daily routine of the programme. The teaching methods are de¬signed to develop the candidates both in personal and professional terms, and to ensure that they are able to better integrate into the working environment. The programme lasts six months and is held at our Training Centre. Candi¬dates selected to participate in the programme re¬ceive a stipend during the six-month period.

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

Building relationships

As in previous years, internship opportunities were offered twice in summer and winter, target¬ing students from both public and pri¬vate universities. Since internships are part of the mandatory curriculum of most universities in Kos¬ovo, by offering these opportunities to students, ProCredit Bank plays an important role in contrib¬uting to the country's financial education efforts. The Internship Programme is a great opportunity for students to get to know the bank and decide whether, after graduating, they would like to partic¬ipate in the selection process for the YBP, which is the only entry point to a career with ProCredit Bank. In 2014, 100 students were selected for three-month internships.

Our steps towards a cleaner environment



Another important principle underlying our development policy vision is the ecological and social sustainability of the economic development we support. ProCredit Bank has developed a comprehensive environmental management system based on three pillars: The first pillar comprises internal measures aimed at reducing the negative environmental impact of the banks themselves, by lowering their consumption of energy and materials, and minimising their waste production. The second pillar aims to reduce the external impact of our lending operations through a detailed assessment of the environmental impact of clients' activities. The third pillar refers to the development of a "green loan" portfolio through the financing of client investments in energy efficiency, renewable energy and environmentally sound projects.

As we are committed to leave an impact on the environment – on regular basis we measure the consumption levels of energy and water resources, as well as the amount of paper and other materials used in the bank's daily operations.

The condition of our offices, the effectiveness of the equipment we use and the efficiency of our vehicles also have an impact.

Thanks to the staff dedication and changes made in work processes together with technological improvements, ProCredit Bank has already achieved visible results in 2015.

- The amount of electricity consumed has fallen by 5.2 %.
- The annual consumption of oil for heating has fallen by 13.6 %
- The paper consumption has fallen by 39.4 %

Furthermore in 2015, to promote ProCredit's deliberate policy of limiting the negative impact of our activities on the environment, the bank launched an initiative to reduce the use of plastic bags. Under this campaign, ProCredit Bank Kosovo distributed 150,000 bags made from 100% organic cotton.

Last but not least, ProCredit Bank received the first prize for Corporate Social Responsibility (CSR) in Kosovo for 2015, at corporate level, due to its numerous educational / awareness raising activities in the field of environmental protection.

Outlook

In 2015 economic growth picked up at 3.5% which was an important development compared to the sluggish economic growth in 2014.

According to forecasts of the Central Bank of Kosovo and IMF, the economic outlook in 2016 will continue to be positive, with slightly higher GDP growth rate (3.8%). The forecasts for the economic growth are based on the expectations for the Brezovica tourism investment project, new donor-financed capital projects, a sustained pickup in bank lending to the private sector and steps to reduce corruption and improve the business environment. However, the outlook should take into account the political instability which may manifest through the risks of delaying important legislation thus hindering the positive expectations. In the last couple of years the positive influence of continued remittance inflows has served as a shock absorber of various economic and political problems and this will likely continue in 2016. With assumptions that the magnitude of the political problems will not increase, we expect better performance of the businesses in Kosovo.

In this respect, ProCredit Bank Kosovo with the investments made in 2015 in the infrastructure through 24/7 zones created significant competitive advantage which will be reflected through efficient and reliable services for its clients, competitive prices for payments business and overall with the best package of full banking services for small and medium size enterprises which make up the backbone of the economy and where the development contribution is the highest. Investments loans, agricultural and green lending will continue to dominate the lending business in 2016 as well.

In the meantime, the services for private individuals will continue to be upgraded to reach the standards of modern financial institutions and to be in line with the rising expectation of our clientele.

In 2016 we expect our training facility dedicated to our staff will be fully functional. The highly trained staff with their advising role and the newly upgraded network, are the single most important distinctive marks of ProCredit Bank Kosovo which will continue to be the cornerstone of our success in the years to come.


ProCredit Bank
Zona
24/7

Financial Statement

Financial Statements ended 31 December 2015

General Information

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

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

PROCREDIT BANK SH.A.

KOSOVO

Financial Statements prepared in accordance with International Financial Reporting Standards

for the year ended 31 December 2015
(with independent auditors' report thereon)

CONTENT

KPMG Albania Shpk Kosovo Branch
6, Pashko Vasa Street
Pristina, Kosovo

Telephone +381(38)246771
Telefax +381(38)610772
E-mail al-kosovo@kpmg.com
Internet www.kpmg.al

Independent Auditors' Report

To the shareholder and Board of Directors of

ProCredit Bank sh.a

Pristina, 29 March 2016

We have audited the accompanying financial statements of ProCredit Bank sh.a ("the Bank"), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk Kosovo Branch

KPMG Albania Shpk Kosovo Branch
6, Pashko Vasa Street,
Pristina, Kosovo

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

	Note	2015	2014
Interest income	7	46,083	55,338
Interest expenses	7	(3,124)	(9,123)
Net interest income		**42,959**	**46,215**
Fee and commission income	8	10,495	10,132
Fee and commission expenses	8	(4,025)	(3,769)
Net fee and commission income		**6,470**	**6,363**
Net (loss)/gain on available-for-sale securities		3	(3)
Net foreign exchange gain		515	553
Other operating income		1,384	1,515
Impairment losses	13	(3,143)	(11,478)
Administrative and other operating expenses	9	(27,605)	(26,496)
Profit before taxation		**20,583**	**16,669**
Income tax expense	10	(2,213)	(2,116)
Net profit for the year		**18,370**	**14,553**
Other Comprehensive Income:			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets)	10	58	205
Total comprehensive income for the year		**18,428**	**14,758**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

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

	Note	2015	2014
Assets			
Cash and balances with the Central Banks	11	164,808	162,051
Loans and advances to banks	12	81,861	110,434
Loans and advances to customers	13	436,730	415,512
Available-for-sale ('AFS') financial assets	14	88,012	94,995
Intangible assets	15	621	848
Property and equipment	16	16,056	14,408
Other financial assets	17	1,941	2,716
Current income tax	10	330	-
Deferred tax assets	10	544	-
Other assets	18	890	789
Total assets		**791,793**	**801,753**
Liabilities			
Due to banks	19	249	282
Due to customers	20	678,057	686,211
Borrowings and subordinated debt	21	15,668	14,825
Income tax payable	10	-	371
Deferred tax liabilities	10	-	193
Other financial liabilities	22	1,267	1,107
Other liabilities	23	2,116	2,756
Total liabilities		**697,357**	**705,745**
Shareholder's equity			
Share capital	24	61,346	61,346
Share premium	24	4,204	4,204
Contingency reserve	24	511	511
Fair value reserve	24	(6)	(64)
Retained earnings		28,381	30,011
Total shareholder's equity		**94,436**	**96,008**
Total liabilities and shareholder's equity		**791,793**	**801,753**

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

These financial statements have been approved by the Management Board on 29 March 2016 and signed on their behalf by:

Ilir Aliu
Chief Executive Officer

Rezak Fetai
Senior Manager

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

	Notes	2015	2014
Cash flows from operating activities			
Profit before tax		**20,583**	**16,669**
Adjustments for:			
Depreciation	16	2,080	2,569
Amortization	15	863	762
Gain/Loss on disposal of property and equipment		(41)	96
Impairment losses	13	3,143	11,478
Interest income	7	(46,083)	(55,338)
Interest expense	7	3,124	9,123
		(16,331)	**(14,641)**
Changes in:			
Due from banks		20,012	(20,004)
Loans and advances to customers		(25,029)	12,127
Other assets		(101)	289
Other financial assets		775	(1,108)
Statutory reserve with CBK		18,089	(3,513)
Due to banks		(33)	(168)
Due to customers		(5,692)	24,821
Other liabilities		(640)	(651)
Other financial liabilities		160	1,575
		(8,790)	**(1,273)**
Interest received		46,502	57,499
Interest paid		(5,712)	(13,541)
Income taxes paid		(3,657)	(1,333)
Net cash generated from operating activities		**28,343**	**41,352**
Cash flows from investing activities			
Net proceeds from sale of AFS financial assets		7,296	74,250
Proceeds from sale of property and equipment		4,150	1,676
Acquisition of property and equipment		(7,837)	(1,781)
Acquisition of intangible assets		(636)	(441)
Net cash from investing activities		**2,973**	**73,704**
Cash flow from financing activities			
Proceeds (repayments) from borrowed funds		951	(9,955)
New capital subscribed		-	5,000
Dividends paid		(20,000)	(20,000)
Net cash used in financing activities		**(19,049)**	**(24,955)**
Net increase in cash and cash equivalents		**12,267**	**90,101**
Cash and cash equivalents at the beginning of the year		**209,715**	**119,614**
Cash and cash equivalents at the end of the year	11	**221,982**	**209,715**

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

PROCREDIT BANK SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
Balance at 1 January 2014	**56,346**	**4,204**	**511**	**35,458**	**(269)**	**96,250**
Transactions with owner of the Bank:						
Dividends paid	-	-	-	(20,000)	-	(20,000)
Capital subscribed	5,000	-	-	-	-	5,000
Contributions and distributions	**5,000**	**-**	**-**	**(20,000)**	**-**	**(15,000)**
Total comprehensive income						
Profit for the year	-	-	-	14,553	-	14,553
Other comprehensive income						
Net change in the fair value of AFS financial assets	-	-	-	-	205	205
Other comprehensive income	**-**	**-**	**-**	**-**	**205**	**205**
Total comprehensive income	**-**	**-**	**-**	**14,553**	**205**	**14,758**
Balance at 31 December 2014	**61,346**	**4,204**	**511**	**30,011**	**(64)**	**96,008**
Transactions with owner of the Bank:						
Dividends paid	-	-	-	(20,000)	-	(20,000)
Contributions and distributions	**-**	**-**	**-**	**(20,000)**	**-**	**(20,000)**
Total comprehensive income						
Profit for the year	-	-	-	18,370	-	18,370
Other comprehensive income						
Net change in the fair value of AFS financial assets	-	-	-	-	58	58
Other comprehensive income	**-**	**-**	**-**	**-**	**58**	**58**
Total comprehensive income	**-**	**-**	**-**	**18,370**	**58**	**18,428**
Balance at 31 December 2015	**61,346**	**4,204**	**511**	**28,381**	**(6)**	**94,436**

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

1. Reporting entity

ProCredit Bank sh.a. Kosovo (“the Bank”) was founded on 9 December 1999, and began operations on 12 January 2000. The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Banking Authority of Kosovo (“CBAK”) and is currently subject to the Law on Banks, Microfinance Institutions and Non Bank Financial Institutions, No. 04/L-093.

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

ProCredit Bank, Kosovo was the first licensed bank in Kosovo. 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, it seeks to minimise ecological footprint, and to provide services which are based both on an understanding of each client’s situation and on a sound financial analysis.

The Bank’s registered office is at Mother Theresa Boulevard, No 16, 10000 Prishtina, Republic of Kosovo. During 2015, the Bank operated with branches, service centres, service points and 24/7 Zones in order to provide our customers with better and more accessible services.

Board of Directors at 31 December 2015:

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

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and its predecessor body. In addition, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body have been applied.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in EUR, which is the Bank’s functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

(d) Use of judgements and estimates

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

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

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

3. Significant accounting policies

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

(a) Interest

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

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

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

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

(b) Fees and commission

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

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

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

(c) Operating leases

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

(d) Foreign currency transactions

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

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

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

(e) Income tax

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

(i) Current tax

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

3. Significant accounting policies (continued)

(e) Income tax (continued)

(ii) Deferred tax

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

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

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

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

(iii) Tax exposures

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

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are 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 fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

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

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

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

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

Impairment of loans and advances

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

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

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

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

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

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

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

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

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

All credit exposures having an outstanding amounts of EUR 30 thousand or more (2014: EUR 30 thousand or more) are assessed individually while credit exposures below this threshold level are considered insignificant and assessed on group basis showing indications of loss events. For insignificant impaired credit exposures the following allowance levels were calculated based on the historical experience of the Bank in the similar economic environments.

	Allowance Level 2015	Allowance Level 2014
arrears 0-30 days	1.99%	1.45%
arrears 31-90 days	55%	45%
arrears > 91 days	75%	70%
arrears > 180 days	90%	90%

3. Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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

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

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

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

Impairment of available-for-sale financial assets

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

(g) Cash and cash equivalents

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

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

(h) Loans and advances

Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

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

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

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

3. Significant accounting policies (continued)

(i) Available-for-sale financial assets

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

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

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

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

(j) Property and equipment

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

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

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

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

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

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

Description	Useful life 2015	Useful life 2014
Buildings	15-40 years	15-40 years
Leasehold improvements	Based on lease term	Based on lease term
Electronic equipment	2-5 years	2-5 years
Furniture and fixtures	2-10 years	2-10 years

Based on internal procedures, property and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 50 (2014: EUR 50) are expensed right away.

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

3. Significant accounting policies (continued)

(k) Intangible assets

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

(l) Assets held for sale

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

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

(m) Deposits and subordinated liabilities

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

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

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

(n) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(o) Employee benefits

The Bank pays only contributions to the publicly administered pension plan on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. The Bank calculated and provided provision for employee's untaken vacations till the end of the current year.

(p) Financial guarantees and loan commitments

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

(q) Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

3. Significant accounting policies (continued)

(r) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards and amendments early.

IFRS 9 Financial Instruments

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance standard, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

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

Effective for annual reporting periods beginning on or after 1 January 2016

IFRS 14 Regulatory Deferral Accounts
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
Annual Improvements to IFRSs 2012–2014 Cycle – various standards
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)

Effective for annual reporting periods beginning on or after 1 January 2017
Disclosure Initiative (Amendments to IAS 7)
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Effective for annual reporting periods beginning on or after 1 January 2019
IFRS 16 Leases

4. Critical accounting judgments and key sources of estimation uncertainty

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

(a) Assumptions and estimation uncertainties

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

(i) Impairment charge for credit losses

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

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

(ii) Impairment of available for-sale investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an additional EUR 6 thousand (2014: EUR 64 thousand) loss in its 2015 financial statements, being the transfer of the total fair value reserve to the profit and loss. See note 24.

(iii) Recent volatility in global financial markets

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

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

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

Investment policies for ProCredit Bank sh.a. remained conservative, such that an excess of liquidity is invested only in high quality (more than AA- sovereign or supranational) securities. Because of this, the Bank was not significantly affected by volatilities in the financial markets, however investments in high quality securities in 2015, meant low or even negative yields.

5. Financial risk management

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

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

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

(a) Credit risk

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

There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and credit commitments. The credit risk management and control for loans and advances are centralized in the credit risk management department, while the interbank risk for placements and debt securities are concentrated in the Treasury and Risk Management Departments. All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

(i) Analysis of credit quality

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

The table below represents a worst case scenario of credit risk exposure of the Bank at 31 December 2015 and 2014, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

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

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

	Balances with the Central Banks and liquid Treasury Bills		Loans and advances to banks		Loans and advances to customers		Available-for-sale financial assets		Other financial assets		Lending commitments and guarantees	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Maximum exposure to credit risk												
Carrying amount	79,872	114,101	81,861	110,434	436,730	415,512	88,012	94,995	1,941	2,716	-	-
Amount committed/guaranteed	-	-	-	-	-	-	-	-	-	-	85,601	73,638
	79,872	**114,101**	**81,861**	**110,434**	**436,730**	**415,512**	**88,012**	**94,995**	**1,941**	**2,716**	**85,601**	**73,638**
At amortised cost												
Neither past due nor impaired	79,872	114,101	81,861	110,434	419,401	387,189	88,012	94,995	1,941	2,716	-	-
Past due but not impaired	-	-	-	-	13,383	15,301	-	-	-	-	-	-
Impaired	-	-	-	-	29,786	44,336	-	-	-	-	-	-
Total gross amount	**79,872**	**114,101**	**81,861**	**110,434**	**462,570**	**446,826**	**88,012**	**94,995**	**1,941**	**2,716**	**-**	**-**
Allowance for impairment (individual and collective)	-	-	-	-	(25,840)	(31,314)	-	-	-	-	-	-
Net carrying amount	**79,872**	**114,101**	**81,861**	**110,434**	**436,730**	**415,512**	**88,012**	**94,995**	**1,941**	**2,716**	**-**	**-**
Off balance: maximum exposure												
Credit commitments: Low - fair risk	-	-	-	-	-	-	-	-	-	-	55,956	47,030
Financial guarantees: Low - fair risk	-	-	-	-	-	-	-	-	-	-	28,094	26,309
Letters of Credit: Low - fair risk	-	-	-	-	-	-	-	-	-	-	1,551	299
Total commitment	-	-	-	-	-	-	-	-	-	-	**85,60 1**	**73,638**
Provisions recognised as liabilities	-	-	-	-	-	-	-	-	-	-	(278)	(323)
Total exposure	-	-	-	-	-	-	-	-	-	-	**85,323**	**73,315**

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

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

			2015			2014
Loans and advances to customers	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Total gross amount	129,972	332,598	462,570	134,092	312,734	446,826
Allowance for impairment (individual and collective)	(5,751)	(20,089)	(25,840)	(3,880)	(27,434)	(31,314)
Net carrying amount	**124,221**	**312,509**	**436,730**	**130,212**	**285,300**	**415,512**
At amortised cost						
Neither past due nor impaired	122,770	296,631	419,401	130,101	257,088	387,189
Past due but not impaired	4,613	8,770	13,383	2,527	12,774	15,301
Impaired	2,589	27,197	29,786	1,464	42,872	44,336
Total gross amount	**129,972**	**332,598**	**462,570**	**134,092**	**312,734**	**446,826**
Allowance for impairment (individual and collective)	(5,751)	(20,089)	(25,840)	(3,880)	(27,434)	(31,314)
Net carrying amount	**124,221**	**312,509**	**436,730**	**130,212**	**285,300**	**415,512**
Loans with renegotiated terms						
Carrying amount	1,550	43,428	44,978	1,835	53,917	55,752
From which: Impaired	359	21,668	22,027	288	33,731	34,019
Allowance for impairment	(453)	(10,127)	(10,580)	(427)	(17,381)	(17,808)
Net carrying amount	**1,097**	**33,301**	**34,398**	**1,408**	**36,536**	**37,944**
Past due but not impaired						
Past due 0-30 days	2,607	6,009	8,616	1,499	9,196	10,695
Past due 31 - 90 days	1,116	1,540	2,656	536	1,887	2,423
Past due 91 – 180 days	890	1,221	2,111	492	1,691	2,183
	4,613	**8,770**	**13,383**	**2,527**	**12,774**	**15,301**
Impaired						
Past due 0 – 30 days	447	16,190	16,637	370	24,068	24,438
Past due 31 - 90 days	157	742	899	-	1,025	1,025
Past due 91 – 180 days	65	1,895	1,960	-	929	929
Past due over 180 days	1,920	8,370	10,290	1,094	16,850	17,944
	2,589	**27,197**	**29,786**	**1,464**	**42,872**	**44,336**
Allowance for impairment						
Individual	(605)	(12,200)	(12,805)	(456)	(20,552)	(21,008)
Collective	(5,146)	(7,889)	(13,035)	(3,424)	(6,882)	(10,306)
Total allowance for impairment	**(5,751)**	**(20,089)**	**(25,840)**	**(3,880)**	**(27,434)**	**(31,314)**

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Impairment and provisioning

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

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

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

- Specific Individual Impairment,
- Portfolio-Based Provisions,
- Lump-Sum Specific Provisions

Specific Individual Impairment: in this category, the Bank would provision all individually significant credit exposures that are impaired based on the number of days in arrears (more than 30 days in arrears).

Portfolio-based Impairment: in this category, the Bank would provision all credit exposures (Individually significant and individually insignificant), that show no objective signs of impairment.

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

The Bank's policy requires the review of individually credit exposures at least quarterly when individual circumstances demand it. Impairment allowances on individually assessed credit exposures are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant credit exposures. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts from those credit exposures.

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured as any modification of the terms and conditions of a credit exposure by agreement between the Bank and the client to modify the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client. A decision to restructure is subject to the following preconditions:

- the restructuring increases the probability that the borrower will be able to repay the credit exposure
- the restructuring increases the probability that the Bank will recover the outstanding debt faster to a larger extent and/or at lower costs that could be achieved through a legal recovery process
- the new payment plan is in line with the actual and expected future payment capacity of the borrower
- the borrower offers additional collateral, if possible and appropriate.

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

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

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Write-off policy

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

Due from banks

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

A function independent from the treasury department, usually risk management, has to monitor that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank. Thus, risk management supports the Treasury Department by providing daily reports that indicate the exposures and placements that can be made to all correspondent banks without violating present exposure limits.

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

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

At 31 December	**2015**	**2014**
AA+ to AA-	34,859	9,938
A+ to A-	22,960	87,532
BBB+ to B-	24,042	12,964
	81,861	**110,434**

Financial assets available-for-sale

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

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

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

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

Ratings at 31 December	2015	2014
AAA	56,227	72,479
AA+	7,426	9,134
Not-rated	24,359	13,382
Total	**88,012**	**94,995**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount that the Bank should pay if the guarantee is called on, which may be significantly greater than the amount 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 manage limits and controls the concentrations of credit risk wherever they are identified in particular to individual counterparties and groups, and to affiliates.

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

Loans to corporate entities and individuals are generally secured; private individual overdrafts and credit cards issued to individuals are secured by cash collateral or other types of collateral determined with a decision of credit committees. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

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

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

5. Financial risk management (continued)

(a) Credit risk (continued)

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

	2015		2014	
At 31 December	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Retail				
Overdrafts	2,340	234	3,249	150
Credit Cards	707	229	831	855
Consumer Loans	7,576	5,267	6,002	3,470
Home Improvement	113,597	125,927	120,130	118,518
Corporate				
Business Overdrafts	43,288	134,645	35,909	134,461
Business up to EUR 150 thousand	153,651	237,478	153,451	257,776
Business greater than EUR 150 thousand	115,571	181,567	95,940	188,532
	436,730	**685,347**	**415,512**	**703,762**

The fair value of the collateral is evaluated by the Bank on 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.

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

	Loans and advances to customers			Fair value of collateral		
31 December 2015	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Mortgage	21,692	216,315	238,007	68,511	298,413	366,924
Pledge	97,859	95,881	193,740	63,146	255,277	318,423
Unsecured exposures	4,670	313	4,983	-	-	-
Total	**124,221**	**312,509**	**436,730**	**131,657**	**553,690**	**685,347**

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

(iii) Concentration of credit risk

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

5. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentration of credit risk (continued)

1) Geographical sectors

The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as of 31 December 2015 and 2014. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2015			2014		
	OECD countries	Kosovo	Total	OECD countries	Kosovo	Total
Balances with the Central Bank	2,398	77,474	79,872	1,989	112,112	114,101
Loans and advances to banks	81,861	-	81,861	110,434	-	110,434
Loans and advances to customers	-	436,730	436,730	-	415,512	415,512
Available-for-sale financial assets	63,712	24,300	88,012	81,637	13,358	94,995
Other financial assets	-	1,941	1,941	-	2,716	2,716
	147,971	**540,445**	**688,416**	**194,060**	**543,698**	**737,758**

2) Industry

	2015			2014		
	Retail	Corporate	Total	Retail	Corporate	Total
Balances with the Central Bank	-	79,872	79,872	-	114,101	114,101
Loans and advances to banks	-	81,861	81,861	-	110,434	110,434
Loans and advances to customers	124,221	312,509	436,730	130,212	285,300	415,512
Available-for-sale financial assets	-	88,012	88,012	-	94,995	94,995
Other financial assets	-	1,941	1,941	-	2,716	2,716
	124,221	**564,195**	**688,416**	**130,212**	**607,546**	**737,758**

The 'Corporate' segment includes banks and financial institutions.

(b) Market risk

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

(i) Foreign currency risk

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

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

	31 December 2015	31 December 2014
1 USD	0.9185	0.8237
1 CHF	0.9229	0.8317
1 GBP	1.3625	1.2839

The following tables summarises the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2015 and 2014 as translated into EUR '000.

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

5. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2015	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash and balances with the central bank	161,516	1,114	1,895	283	164,808
Loans and advances to banks	67,269	13,794	677	121	81,861
Loans and advances to customers	434,282	2,448	-	-	436,730
Available-for-sale financial assets	80,586	7,426	-	-	88,012
Other financial assets	1,367	574	-	-	1,941
Total	**745,020**	**25,356**	**2,572**	**404**	**773,352**
Liabilities					
Due to banks	248	-	1	-	249
Due to customers	649,550	25,453	2,647	407	678,057
Borrowings and subordinated debt	15,668	-	-	-	15,668
Other financial liabilities	1,267	-	-	-	1,267
Total	**666,733**	**25,453**	**2,648**	**407**	**695,241**
Net on-balance sheet financial position	**78,287**	**(97)**	**(76)**	**(3)**	**78,111**
Credit commitments	55,786	160	-	-	55,946
Off balance sheet - letters of credit	1,551	-	-	-	1,551
Off balance sheet - bank guarantees	27,865	229	-	-	28,094
Total credit related commitments	**85,202**	**389**	**-**	**-**	**85,591**

31 December 2014	**EUR**	**USD**	**CHF**	**GBP**	**Total**
Assets					
Cash and balances with the central bank	156,298	1,466	3,691	596	162,051
Loans and advances to banks	100,149	6,547	3,597	141	110,434
Loans and advances to customers	413,294	2,218	-	-	415,512
Available-for-sale financial assets	82,626	12,369	-	-	94,995
Other financial assets	2,201	515	-	-	2,716
Total	**754,568**	**23,115**	**7,288**	**737**	**785,708**
Liabilities					
Due to banks	281	-	1	-	282
Due to customers	655,079	23,186	7,191	755	686,211
Borrowings and subordinated debt	14,825	-	-	-	14,825
Other financial liabilities	1,107	-	-	-	1,107
Total	**671,292**	**23,186**	**7,192**	**755**	**702,425**
Net on-balance sheet financial position	**83,276**	**(71)**	**96**	**(18)**	**83,283**
Credit commitments	46,949	81	-	-	47,030
Off balance sheet - letters of credit	181	118	-	-	299
Off balance sheet - bank guarantees	25,698	611	-	-	26,309
Total credit related commitments	**72,828**	**810**	**-**	**-**	**73,638**

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

5. Financial risk management (continued)

(b) Market risk (continued)

(i) Foreign currency risk (continued)

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

			Effect on profit or loss	
	Increase 2015	**Increase 2014**	**31 December 2015**	**31 December 2014**
USD	10%	10%	11	9
Other	10%	10%	8	13

(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. Rather, the Bank seeks to ensure that the structure of assets and liabilities is balanced across all maturities.

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

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

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

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap At 31 December 2015		**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**More than 5 Years**	**Total interest sensitive**	**Not interest sensitive**
Assets										
Cash on hand		-	-	-	-	-	-	-	-	83,822
Balances with the Central Bank		250	-	-	-	-	-	-	250	79,622
Current accounts with banks		16,681	-	-	-	-	-	-	16,681	2,539
T-bills and marketable securities	Fixed	2,000	3,860	9,840	21,000	23,100	550	-	60,350	2,070
	Variable	-	18,000	-	-	-	-	-	18,000	166
Term deposits with banks		20,900	27,950	-	-	-	-	-	48,850	(3)
Loans and advances to customers	Fixed	23,339	35,088	54,941	106,230	99,471	118,420	16,230	453,719	(23,319)
	Variable	3,935	-	-	-	-	-	-	3,935	
Other assets		-	-	-	-	-	-	-	-	19,709
Total assets		**67,105**	**84,898**	**64,781**	**127,230**	**122,571**	**118,970**	**16,230**	**601,785**	**164,606**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	-	249
Current accounts from customers		30,074	8,020	12,030	24,059	48,118	78,192	-	200,493	351,038
Deposits from customers		9,515	11,350	15,076	38,865	12,064	9,894	491	97,255	3,818
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	8,000	8,000	21
	Variable	-	7,500	-	-	-	-	-	7,500	147
Other liabilities and equity		-	-	-	-	-	-	-	-	97,870
Total liabilities and equity		**39,589**	**26,870**	**27,106**	**62,924**	**60,182**	**88,086**	**8,491**	**313,248**	**453,143**
IR sensitivity gap- open position		**27,516**	**58,028**	**37,675**	**64,306**	**62,389**	**30,884**	**7,739**	**288,537**	**(288,537)**

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

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap At 31 December 2014		Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive
Assets										
Cash on hand		-	-	-	-	-	-	-	**-**	**46,484**
Balances with the Central Bank		300	-	-	-	-	-	-	**300**	**113,801**
Current accounts with banks		43,134	-	-	-	-	-	-	**43,134**	**851**
T-bills and marketable securities	Fixed	19,250	11,800	17,100	29,250	4,000	-	-	**81,400**	**1,225**
Term deposits with banks		7,000	32,900	20,000	-	-	-	-	**59,900**	**2**
Loans and advances to customers	Fixed	16,237	34,827	53,318	97,444	96,725	113,189	16,946	**428,686**	**(19,075)**
	Variable	3,683	-	-	-	-	-	-	**3,683**	**-**
Other assets		-	-	-	-	-	-	-	**-**	**18,221**
Total assets		**89,604**	**79,527**	**90,418**	**126,694**	**100,725**	**113,189**	**16,946**	**617,103**	**161,509**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	**-**	**282**
Current accounts from customers		40,212	8,030	12,046	24,091	48,182	68,257	-	**200,818**	**300,615**
Deposits from customers		21,565	21,586	25,255	59,644	16,831	14,382	996	**160,259**	**1,332**
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	**-**	**-**
	Variable	-	14,545	-	-	-	-	-	**14,545**	**280**
Other liabilities and equity		-	-	-	-	-	-	-	**-**	**100,481**
Total liabilities and equity		**61,777**	**44,161**	**37,301**	**83,735**	**65,013**	**82,639**	**996**	**375,622**	**402,990**
IR sensitivity gap- open position		**27,827**	**35,366**	**53,117**	**42,959**	**35,712**	**30,550**	**15,950**	**241,481**	**(241,481)**

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

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap

At 31 December 2015		Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 Years	2-5 Years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	-	1,114
Current accounts with banks		6,138	-	-	-	-	-	6,138	755
T-bills and marketable securities	Fixed	-	7,348	-	-	-	-	7,348	78
Term deposits with banks		2,296	4,593	-	-	-	-	6,889	12
Loans and advances to customers	Fixed	10	1,331	582	158	144	273	2,498	(103)
Other assets		-	-	-	-	-	-	-	673
Total assets		**8,444**	**13,272**	**582**	**158**	**144**	**273**	**22,873**	**2,529**
Current accounts from customers		1,335	357	534	1,068	2,137	3,472	8,903	16,305
Deposits from customers		2	18	82	142	-	-	244	1
Other liabilities		-	-	-	-	-	-	-	(51)
Total liabilities		**1,337**	**375**	**616**	**1,210**	**2,137**	**3,472**	**9,147**	**16,255**
IR sensitivity gap- open position		**7,107**	**12,897**	**(34)**	**(1,052)**	**(1,993)**	**(3,199)**	**13,726**	**(13,726)**
At 31 December 2014									
Cash on hand		-	-	-	-	-	-	**-**	**1,466**
Current accounts with banks		2,992	-	-	-	-	-	**2,992**	**260**
T-bills and marketable securities	Fixed	-	12,355	-	-	-	-	**12,355**	**15**
Term deposits with banks		-	3,295	-	-	-	-	**3,295**	**0**
Loans and advances to customers	Fixed	5	1,371	263	129	115	374	**2,257**	**(39)**
Other assets		-	-	-	-	-	-	**-**	**540**
Total assets		**2,997**	**17,021**	**263**	**129**	**115**	**374**	**20,899**	**2,242**
Current accounts from customers		1,786	357	536	1,072	2,143	3,036	**8,930**	**13,459**
Deposits from customers		172	255	78	282	2	-	**789**	**9**
Other liabilities		-	-	-	-	-	-	**-**	**(46)**
Total liabilities and equity		**1,958**	**612**	**614**	**1,354**	**2,145**	**3,036**	**9,719**	**13,422**
IR sensitivity gap- open position		**1,039**	**16,409**	**(351)**	**(1,225)**	**(2,030)**	**(2,662)**	**11,180**	**(11,180)**

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

5. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

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

Considering EUR and USD denominated asset and liability structures as at 31 December 2015 and 2014, and assuming a parallel shift of interest rate for +/-200bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses:

Increase on interest rates of 2%	Interest earning decline over the next 3 months		Interest earning decline over the next 1 year		Economic Value impact	
Assets and Liabilities in:	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
EUR	183	179	2,124	1,973	(6,129)	(5,796)
USD	51	32	346	283	167	137

(c) Liquidity risk

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

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

The Bank aims to keep all times the expected cumulative maturity gap positive. Should the expected cumulative maturity gap be 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 ('off-BS') positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from Bank Guarantee´s and Letter of Credit´s and other credit related commitments) become due and assets can be used as repayment source (including the off balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).

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

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

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2015	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	84,936	-	-	-	-	84,936
Reserves with the Central Bank	24,678	-	-	-	-	24,678
Current accounts with the Central Bank	55,194	-	-	-	-	55,194
Current accounts with banks	26,113	-	-	-	-	26,113
Unused credit commitments	17,000	-	-	-	-	17,000
T-bills and marketable securities	1,998	11,236	9,799	21,229	42,656	86,918
Assets 1-S						
Term deposits with banks	23,196	32,543	-	-	-	55,739
Loans and advances to customers	21,827	32,903	50,171	97,080	258,173	460,154
Total Assets	**254,942**	**76,682**	**59,970**	**118,309**	**300,829**	**810,732**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	249	-	-	-	-	249
Due to customers (due daily)	570,130	-	-	-	-	570,130
Contingent liabilities from guarantees	29,645	-	-	-	-	29,645
Unused credit commitments	55,946	-	-	-	-	55,946
Liabilities 1-S						
Due to customers	9,438	12,116	15,823	39,809	26,922	104,108
Borrowings and subordinated debt	-	-	-	-	15,500	15,500
Total Contractual Liabilities	**665,408**	**12,116**	**15,823**	**39,809**	**42,422**	**775,578**
Periodic Contractual Liquidity Gap	**(410,466)**	**64,566**	**44,147**	**78,500**	**258,407**	**35,154**
Cumulative Contractual Liquidity Gap	**(410,466)**	**(345,900)**	**(301,753)**	**(223,253)**	**35,154**	
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	124	124	-	-	-	626
Due to customers (due daily)	85,780	23,031	34,172	68,344	358,804	570,130
Contingent liabilities from guarantees	1,482	-	-	-	-	1,482
Unused credit commitments	11,189	-	-	-	-	11,189
Liabilities 1-S						
Due to customers	9,438	12,116	15,823	39,809	26,922	104,108
Borrowings and subordinated debt	-	-	-	-	15,500	15,500
Total Expected Liabilities	**108,013**	**35,271**	**49,995**	**108,153**	**401,226**	**702,435**
Periodic Expected Liquidity Gap	**146,929**	**41,410**	**9,975**	**10,156**	**(100,397)**	**108,073**
Cumulative Expected Liquidity Gap	**146,929**	**188,339**	**198,314**	**208,470**	**108,073**	

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

5. Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

The Bank is maintaining a portfolio of highly marketable financial assets (available-for-sale financial assets) that can easily be liquidated as protection against any unforeseen interruption to cash flow. The Management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2014, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in Bank's Risk Management Committee and ALCO. The stress test is performed applying three different scenarios as per Liquidity Risk Management Policy, starting from less to more conservative scenarios. In case the Management Board and Risk Management Department sees any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

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

5. Financial risk management (continued)

(d) Capital management

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of Kosovo (CBK); (ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and (iii) to maintain a strong capital base to support the development of its business.

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

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

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

As at 31 December 2015 and 2014 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2015	2014
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	511	511
Retained earnings	32,225	26,215
less: Intangible assets	(581)	(808)
less: Credits to bank related persons	(5,812)	(7,850)
less: Deferred tax assets	(116)	(8)
Total qualifying Tier 1 capital	**91,777**	**83,610**
Tier 2 capital		
Subordinated liability	7,500	13,136
Provisions for loan losses (limited to 1.25% of RWA)	6,216	6,069
Total qualifying Tier 2 capital	**13,716**	**19,205**
Total regulatory capital	**105,493**	**102,815**
Risk-weighted assets:		
On-balance sheet	470,436	464,374
Off-balance sheet	26,865	21,122
Risk assets for operational risk	59,964	64,427
Total risk-weighted assets	**557,265**	**549,923**
Tier I capital adequacy ratio	**16.47%**	**15.20%**
Tier II capital adequacy ratio	**18.93%**	**18.70%**

5. Financial risk management (continued)

(e) Risk bearing capacity

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses.

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

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

The Bank showed a modest level of utilization of its RAtCR as of 31 December 2015. 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 2015 in the Risk Event Database (RED), which captures risk event data on a bank and group-wide scale, indicates a low level of operational risk. All risks combined, as quantified by the methods established by the Bank's policies, are below the limit of 60% of the Bank's total risk bearing capacity.

6. Fair values of financial instruments

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

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

(a) Valuation models

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

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

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

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

The Bank uses widely 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.

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

6. Fair values of financial instruments (continued)

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

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

Available-for-sale financial assets (debt)	Total Fair Value	Level 1	Level 2	Level 3
31 December 2015	87,954	63,654	24,300	-
31 December 2014	94,971	81,613	13,358	-

(c) Financial instruments not measured at fair value

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

	Carrying value 2015	Fair value Level 2 2015	Fair value Level 3 2015	Carrying value 2014	Fair value Level 2 2014	Fair value Level 3 2014
Financial Assets						
Cash and balances with the Central Bank	164,808	164,808	-	162,051	162,051	-
Loans and advances to banks	81,861	81,861	-	110,434	110,434	-
Loans and advances to customers	436,730	-	424,263	415,512	-	406,971
Other financial assets	1,941	1,941	-	2,716	2,716	-
Financial Liabilities						
Due to banks	249	249	-	282	282	-
Customers' deposits	678,057	576,648	101,027	686,211	523,878	161,787
Borrowings and subordinated debt	15,668	-	15,360	14,825	-	14,825
Other financial liabilities	1,267	1,267	-	1,107	1,107	-

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

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

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

7. Net interest income

	2015	2014
Interest income		
Loans and advances to customers	45,603	54,684
Loans and advances to banks	387	185
Available-for-sale financial assets	7	199
Other	86	270
Total interest income	**46,083**	**55,338**
Interest expense		
Due to customers	1,998	7,079
Borrowed funds	973	1,889
Other	153	155
Total interest expense	**3,124**	**9,123**
Net interest income	**42,959**	**46,215**

Included within interest income from loans and advances to customers for the year ended 31 December 2015 is a total of EUR 843 thousand (2014: EUR1,205 thousand) relating to impaired financial assets and unwinding of the discount on the impairment for loans of EUR 1,628 thousand (2014: EUR 2,681 thousand).

8. Net fee and commission income

	2015	2014
Fee and commission income		
Payment transfers and transactions	4,594	4,121
Letters of credit and guarantees	1,179	738
Account maintenance fees	1,260	1,387
Debit and credit cards	2,665	2,867
Other fees and commissions	797	1,019
Total fee and commission income	**10,495**	**10,132**
Fee and commission expense		
IT provider and related services	1,242	1,166
Fees and commissions on bank accounts	525	627
Other fees to banks	507	268
Fees and expenses related to cards	444	492
Other fees and commissions	1,307	1,216
Total fee and commission expense	**4,025**	**3,769**
Net fee and commission income	**6,470**	**6,363**

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

9. Administrative and other operating expenses

	2015	**2014**
Personnel expenses (see below)	9,728	10,085
Depreciation and amortisation (see notes 15 and 16)	2,943	3,331
Rental expenses	2,080	2,294
Maintenance and repairs	1,519	1,686
Advertising and promotion costs	866	893
Consulting and legal fees	1,118	862
Security services	626	669
Expenses paid to ProCredit Holding	778	808
Utilities	757	567
Training costs	759	718
Deposit insurance fund	752	737
Communication (telephone, on-line connection)	605	549
Transport (fuel, maintenance)	319	313
Office supplies	229	304
Royalties on software	379	367
Provision for guarantees given	200	252
Disposal for property and equipment	1,513	96
Other expenses	2,434	1,965
	27,605	**26,496**

At 31 December 2015 the Bank had 544 employees (2014: 689 employees).

	2015	**2014**
Wages and salaries	8,000	9,002
Pension contribution	397	447
Fringe benefits	160	314
Other compensations	1,171	322
	9,728	**10,085**

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

10. Income taxes

(a) Amounts recognised in profit or loss

	2015	2014
Current tax expenses	2,956	2,829
Deferred tax income	(743)	(713)
Income tax expense	**2,213**	**2,116**

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% (2014: 10%).

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

	2015			2014		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Available-for-sale investments	64	(6)	58	227	(22)	205
Total (see Note 24)	**64**	**(6)**	**58**	**227**	**(22)**	**205**

(c) Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2014: 10%) to current income tax expense:

	Tax rate	2015	Tax rate	2014
Profit before tax		20,583		16,669
Tax using the corporate tax rate	10.0%	2,058	10.0%	1,667
Exempt income	-0.3%	(68)	0.0%	-
Non-deductible expenses	0.8%	166	0.1%	21
Additional expenses due to different provision for loans and accrued interest from loans based on Central Bank of Kosovo rules	3.9%	800	6.8%	1,141
Deferred tax income	-3.6%	(743)	-4.3%	(713)
	10.8%	**2,213**	**12.7%**	**2,116**

Prepaid income tax as at 31 December 2015 was EUR 330 thousand (31 December 2014: income tax payable of EUR 371 thousand).

(d) Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2014: 10%).

	2015	Movements in profit or loss	Movements in OCI	2014
Deferred tax assets				
Available-for-sale investments	2	-	(6)	8
Accrued interest from deposits	98	(77)	-	175
Depreciation for property and equipment	17	20	-	(3)
Provisions for loan impairment	496	759	-	(263)
	613	**702**	**(6)**	**(83)**
Deferred tax liabilities				
Accrued interest from loans	(69)	41	-	(110)
	(69)	**41**	**-**	**(110)**
Net deferred tax assets/(liabilities)	**544**	**743**	**(6)**	**(193)**

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

11. Cash and balances with the Central Banks

	2015	2014
Cash on hand	84,936	47,950
Kosovo Government Securities (with maturities of 3 months or less)	250	300
Amounts held at the CBK		
Current accounts	52,546	69,045
Statutory reserves	24,678	42,767
Balance with Deutche Bundesbank	2,398	1,989
	164,808	**162,051**

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

Cash and cash equivalents as at 31 December 2015 and 2014 are presented as follows:

	2015	2014
Cash and balances with the Central Banks	164,808	162,051
Statutory reserves	(24,678)	(42,767)
Loans and advances to banks with original maturities of 3 months or less (note 12)	81,852	90,431
	221,982	**209,715**

12. Loans and advances to banks

	2015	2014
Current accounts	26,113	47,237
Time deposits with banks	55,748	63,197
	81,861	**110,434**

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

- Deposits in EUR: from (0.15)% to 0.07 % p.a. (2014: from 0.25% to 0.02% p.a.); and
- Deposits in USD: from 0.42% to 0.40% p.a. (2014: from 0.31% to 0.10% p.a.).

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

13. Loans and advances to customers

	2015	2014
Loans to customers	411,725	401,958
Overdrafts	47,636	40,831
Credit cards	793	953
Deferred disbursement fees	(978)	(1,311)
Accrued interest	3,394	4,395
	462,570	**446,826**
Impairment allowance	(25,840)	(31,314)
	436,730	**415,512**

	2015			2014		
	Gross amount	**Impairment allowance**	**Net amount**	**Gross amount**	**Impairment allowance**	**Net amount**
Retail customers:						
Overdrafts	3,030	(690)	2,340	3,442	(193)	3,249
Credit cards	796	(90)	706	956	(125)	831
Consumer loans	7,823	(247)	7,576	6,174	(173)	6,001
Home improvement	118,321	(4,724)	113,597	123,519	(3,389)	120,130
Corporate customers:						
Overdrafts	44,696	(1,407)	43,289	37,685	(1,776)	35,909
Up to EUR 150 thousand	166,633	(12,982)	153,651	168,404	(14,954)	153,450
Above EUR 150 thousand	121,271	(5,700)	115,571	106,646	(10,704)	95,942
	462,570	**(25,840)**	**436,730**	**446,826**	**(31,314)**	**415,512**

The movements in the impairment allowances for loan losses at 31 December 2015 were as follows:

	2015	2014
At 1 January	31,314	34,164
Charge for the year	3,143	11,478
Unwinding of discount	(1,627)	(2,681)
Loans written-off	(6,990)	(11,647)
At 31 December	**25,840**	**31,314**

At 31 December 2015, the loan portfolio includes loans to employees of the Bank of EUR 1,830 thousand (2014: EUR 2,924 thousand). These loans are monitored by the Central Bank of Kosovo (“CBK”), which places a maximum allowed limit for such loans in relation to the Regulatory Capital of the Bank.

14. Available-for-sale financial assets

	2015	2014
Shares in companies located in OECD countries	58	24
Debt securities	86,918	94,184
Accrued interest	1,036	787
Total	**88,012**	**94,995**

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

15. Intangible assets

	Software
Cost	
At 1 January 2014	**5,208**
Additions	441
At 31 December 2014	**5,649**
Additions	636
Disposals	(4)
At 31 December 2015	**6,281**
Accumulated amortization	
At 1 January 2014	**4,038**
Charge for the year	763
At 31 December 2014	**4,801**
Charge for the year	863
Disposals	(4)
At 31 December 2015	**5,660**
Net carrying amount	
At 31 December 2014	**848**
At 31 December 2015	**621**

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

16. Property and equipment

	Land	Buildings	Assets under construction	Furniture and fixtures	Electronic equipment	Leasehold improvements	Total
Cost							
At 1 January 2014	**4,907**	**6,634**	**1,019**	**1,574**	**17,984**	**4,176**	**36,294**
Additions	-	68	307	20	890	257	1,542
Disposals	-	-	(1,247)	(50)	(1,287)	(220)	(2,804)
At 31 December 2014	**4,907**	**6,702**	**79**	**1,544**	**17,587**	**4,213**	**35,032**
Additions	-	71	1,473	110	5,434	749	7,837
Disposals	-	(544)	(820)	(153)	(2,699)	(2,974)	(7,190)
At 31 December 2015	**4,907**	**6,229**	**732**	**1,501**	**20,322**	**1,988**	**35,679**
Accumulated depreciation							
At 1 January 2014	**-**	**1,907**	**-**	**1,347**	**13,410**	**2,662**	**19,326**
Charge for the year	-	349	-	123	1,865	231	2,568
Disposals	-	-	-	(50)	(1,084)	(137)	(1,271)
At 31 December 2014	**-**	**2,256**	**-**	**1,420**	**14,191**	**2,756**	**20,623**
Charge for the year	-	340	-	77	1,446	217	2,080
Disposals	-	(237)	-	(112)	(592)	(2,139)	(3,080)
At 31 December 2015	**-**	**2,359**	**-**	**1,385**	**15,045**	**834**	**19,623**
Net carrying value							
At 31 December 2014	**4,907**	**4,446**	**79**	**124**	**3,396**	**1,457**	**14,408**
At 31 December 2015	**4,907**	**3,870**	**732**	**116**	**5,277**	**1,154**	**16,056**

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

17. Other financial assets

	2015	2014
Accrued account maintenance fees	329	346
Security deposits	574	515
Receivables from financial institutions	870	937
Assets held for sale	-	911
Other financial assets	168	7
	1,941	**2,716**

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

18. Other assets

	2015	2014
Prepaid expenses	180	297
Other assets	710	492
	890	**789**

19. Due to banks

	2015	2014
Current accounts	249	282
	249	**282**

20. Due to customers

	2015	2014
Current accounts	365,698	315,278
Saving accounts	208,858	208,992
Term deposits	97,499	154,181
Other customer accounts	2,183	1,479
Interest accrued	3,819	6,281
	678,057	**686,211**

Balances due to customers (current accounts, savings and term deposits) include an amount of EUR 5,925 thousand (2014: EUR 6,526 thousand) that represents cash collateral obtained for loans, guarantees, letters of credit and payment orders on behalf of customers.

The published annual interest rates at 31 December 2015 and 2014 were as follows:

	2015	2014
Saving accounts	0.05%	0.25%
Time deposits:		
Six months	n/a	0.05%
One year	0.05%	0.10%
Two years	0.10%	0.20%
Three years	0.50%	0.70%
Four years	1.00%	1.00%
Five years	1.50%	1.50%

Current accounts generally do not bear interest.

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

21. Borrowings and subordinated debt

	2015	2014
Subordinated debt from ProCredit Holding AG & CO.KGaA	7,647	7,667
Borrowings from European Fund for Southeast Europe ('EFSE')	-	7,158
Borrowed funds from European Investment Bank (EIB)	8,021	-
	15,668	**14,825**

Subordinated debt of EUR 7,500 thousand (2014: EUR 7,500 thousand) was obtained from ProCredit Holding AG & CO.KGaA under a subordinated loan agreement signed in September 2014. The subordinated debt of EUR 7,647 thousand (2014: EUR 7,667 thousand) at 31 December 2015, includes the principal and accrued interests.

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

Borrowings from EFSE of EUR 7,158 thousand at 31 December 2014, were fully repaid in 2015.

Based on an agreement with EIB signed in November 2013, in 2015, the Bank received EUR 8,000 thousand (2014: nil) with the purpose of financing projects that are undertaken by small and medium sized enterprises.

22. Other financial liabilities

	2015	2014
Accrued expenses	133	153
Suppliers payable	880	660
Due to related parties	159	191
Pension contribution payable to Kosovo Pension Fund	95	103
	1,267	**1,107**

23. Other liabilities

	2015	2014
Provision for untaken vacation	207	222
Provision for litigation cases	706	345
Provision for guarantees	278	323
Other	925	1,866
	2,116	**2,756**

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

24. Shareholder's equity and reserves

Share capital

At 31 December 2015 the authorised share capital comprised 12,269,242 ordinary shares (2014: 12,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	2015			2014		
	Number of shares	**In EUR**	**%**	**Number of shares**	**In EUR**	**%**
ProCredit Holding	12,269,242	61,346,210	100	12,269,242	61,346,210	100
	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 (2014: EUR 4,204 thousand) represents the excess of contribution received over the nominal value of shares issued.

Contingency Reserve

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

Fair value reserve

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

	2015	**2014**
Balance at 1 January	(64)	(269)
Revaluation loss reserve for AFS investments	2,057	(417)
Revaluation gain reserve for AFS investments	(1,993)	644
Deferred taxes on Fair value reserve	(6)	(22)
Balance at 31 December	**(6)**	**(64)**

Dividends paid

Dividends of EUR 20 million (2014: EUR 20 million) were approved in May and paid in June 2015.

25. Related party transactions

The ProCredit Group (the 'Group') is composed of development-oriented banks operating in the Eastern Europe and Latin 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. At a consolidated level the Group is supervised by the German federal banking supervision authorities (BaFin and Bundesbank). The ProCredit Group aims to combine high development impact with commercial success for its shareholders.

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

- IPC – Internationale Projekt Consult GmbH: 18.4% (2014: 18.4%);
- KfW Development Bank: 13.6% (2014: 13.6%);
- DOEN Foundation: 13.3% (2014: 13.3%); and
- International Finance Corporation (IFC): 10.3% (2014: 10.3%).

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

25. Related party transactions (continued)

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholder and affiliated entities at 31 December 2015 and 2014 are as follows:

	2015	2014
Assets receivable from:		
Loans and advances to other ProCredit banks	5,664	7,673
Financial assets from other ProCredit banks	73	95
Financial assets from Quipu GmbH	59	49
Other financial assets	48	20
	5,844	**7,837**
Liabilities due to:		
Due to other ProCredit banks	194	144
Financial liabilities to other ProCredit banks	159	180
Due to ProCredit Holding AG & Co. KGaA	124	134
Due to Quipu GmbH	306	246
Subordinated debt from ProCredit Holding AG & Co. KGaA	7,647	7,667
	8,430	**8,371**

At 31 December 2015, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2014: EUR 15,000 thousand), maturing on 11 March 2016 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

	2015	2014
Interest income from:		
Interest income from ProCredit banks	3	8
Other income from ProCredit Group	3	3
	6	**11**
Expenses:		
The Parent: Interest expenses for subordinated debt	538	167
The Parent: Other administrative expenses	1,007	810
The Parent and Academies: Training expenses	541	418
The Parent: Commitment fees	152	152
Quipu GmbH: IT services	955	661
Quipu GmbH: Card processing fees	1,250	1,072
	4,443	**3,280**

	2015	2014
Key management remuneration:		
Salaries	246	236
Pension contribution	12	10
Personal income tax	22	21
	280	**267**

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

26. Commitments and contingencies

	2015	2014
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	55,946	47,030
International guarantees	15,282	11,497
Local guarantees	12,812	14,812
Letters of credit	1,551	299
Less: Provisions recognised as liabilities	(278)	(323)
	85,313	**73,315**
Credit commitments		
Unused credit card facilities	4,190	4,248
Unused overdraft limits	43,715	35,224
Non-disbursed loans tranches	2,613	3,682
Unused portion of credit lines	5,428	3,876
	55,946	**47,030**

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 2015.

Operating lease commitments

The Bank has entered into commercial property leases for its offices. At 31 December 2015 and 2014, the Bank's future minimum non-cancellable lease commitments were EUR 244 thousand (2014: EUR 175 thousand). The majority of these commitments are not longer than one month.

27. Events after the end of the reporting period

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