ProCredit Bank

Kosovo

Annual Report 2016

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 minimise our ecological footprint and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

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

Business ethics

Our Mission Statement makes it clear that the aim of the ProCredit group is to set a standard in the financial sectors in which we operate. We want to make a difference – by focusing on a specific target group, by providing high-quality financial services, and by applying ethics all to our business activities.
Our corporate values form the foundation of our business ethics. The following principles guide the operation of the ProCredit institutions.

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

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

Social responsibility and tolerance: We offer our clients sound, well-founded advice. Before offering loans to our clients, we assess their financial situation, their business potential and their repayment capacity in order to avoid overindebting them and to provide them with the financial services most appropriate to their situation. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

We also ensure that compliance with our ethical business practices is considered when reviewing loan applications. No loans are issued to enterprises or individuals if it is suspected that they are involved in any unsafe, environmentally harmful or morally objectionable activities or forms of labour.

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

Personal integrity and commitment: Complete honesty is required of all employees in the ProCredit group at all times and any breaches of this principle are dealt with swiftly and rigorously.

These principles represent the backbone of our corporate culture and are actively applied in our day to day operations. They are reflected in the ProCredit Code of Conduct, which translates the group's principles into practical guidelines for our staff.

Management:

Ilir I. Aliu
Chief Executive Officer

Eriola Bibolli
Deputy Chief Executive Officer

Basic information of ProCredit Bank

Shareholder	Nominal value (EUR)	No. of shares	in %
ProCredit Holding	61,346,210	12,269,242	100
Totali	61,346,210	12,269,242	100

ProCredit Holding is the parent company of the ProCredit group, which operates in Eastern Europe and Latin America, as well as in Germany. ProCredit Holding was founded as Internationale Micro Investitionen (IMI) in 1998 by the pioneering development finance consultancy company Zeitinger Invest GmbH.

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that is the leading provider of fair, transparent financial services for very small, small and medium-sized businesses, as well as the general public in the group's countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks, hand picks its senior management, and supports the banks in all key areas of activity, including business 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 and also in line with the standards set by the German supervisory authorities.

Zeitinger Invest GmbH is the leading shareholder and strategic investor in ProCredit Holding and has been the driving entrepreneurial force behind the ProCredit group since its establishment.

ProCredit Holding is a public-private partnership. In addition to Zeitinger Invest GmbH and ProCredit Staff Invest, other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund, the Swiss investment fund responsAbility, MicroVest and the GAWA Microfinance Fund. The public shareholders of ProCredit Holding include KfW (the German development 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).

ProCredit Holding is a partnership limited by shares (KGaA - Kommanditgesellschaft auf Aktien). This is a legal form not uncommonly used in Germany and can 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: Zeitinger Invest GmbH, ProCredit Staff Invest, DOEN, KfW and IFC. The KGaA structure enables ProCredit Holding to raise capital in the future without affecting the influence of the core shareholders in ensuring that the group maintains its focus on development impact and commercial success.

Key business segments

Business clients

ProCredit Bank is dedicated to providing high-quality professional services to small and medium-sized businesses, as we believe that these enterprises make a difference in their countries of operation by creating new jobs and improving the economy.

This year, the relationship management approach developed by the bank, along with the professionalism of its Business Client Advisers, enabled us to gain a clearer understanding of the needs and financial capacity of its clients and their businesses in order to provide adequate financial services. In line with ProCredit's strategy and in addition to the financial services offered, we place special emphasis on the promotion of other banking services that meet the needs of clients. To this end, we continually worked on developing and improving the services available at our 24/7 Zones, thus providing innovative, fast and secure banking options for our clients. What makes these zones unique is the state-of-the-art equipment that enables our business clients to carry out their banking activities in a flexible and highly efficient manner without being limited by the bank's business hours. At 24/7 Zones, business clients can withdraw funds, deposit their daily turnover at ATMs, deposit larger amounts into ProCredit Drop Boxes, access the Information Corner, and even contact the call centre around the clock, seven days a week.

Furthermore, because of the increased focus on providing quality services and developing the bank's infrastructure through the introduction of 24/7 Zones, 99% of the transactions conducted in 2016 were carried out electronically. This made it possible for Business Client Advisers to focus more intently on identifying the needs of clients and on providing appropriate services to business clients.

Also in 2016, the bank continued to invest in the training and further development of its Business Client Advisers, who play a key role in implementing the bank's strategy of developing long-term professional relationships with business clients.

In order to promote general economic growth, the bank concentrated on promoting and stimulating investment loans, particularly loans to production companies. As a result of these efforts, in 2016, more than 35% of all loans disbursed were investment loans. In the second half of the year, an agreement was signed with the Kosovo Credit Guarantee Fund, which provided the bank with additional financing, thus making it possible to achieve its business objectives.

In 2016, the bank shifted its focus to credit exposures above EUR 30,000. This led to an increase of EUR 5 million in the business portfolio, of which the total volume of business loans totalled EUR 333.7 million as of the end of 2016.

Local agricultural businesses and food processors make up a very important client group for ProCredit Bank. Food processing goes hand in hand with agriculture and therefore enables the bank to establish the long-term and sustainable relationships necessary for the development of the agricultural sector. In 2016, the main focus was on long-term agricultural capital investments, such as expanding farm capacities, building warehouses for local products, modernising agricultural equipment (through our agricultural business partners), building new greenhouses, purchasing arable land, etc. The total agricultural loan portfolio increased by EUR 2.2 million, reaching EUR 41.9 mi¬llion. ProCredit's main focus is on carrying out responsible banking activities in compliance with environmental standards. The bank has continued to encourage clients to take out green loans, whose purposes include the funding of investments in energy efficiency, renewable energy sources, and other eco-friendly measures.

In previous years, these types of loans were mostly taken out by private clients for the purpose of insulating their homes. However, in 2016, the objective was to encourage business clients to undertake such investments with emphasis on upgrading the machines used in production and measures that lower water or air pollution. The green loan portfolio for business clients reached EUR 28.5 million, increasing the share of green loans in the total portfolio by 8.5%.

The bank will continue to customise and develop banking services for businesses in order to help businesses expand and thus foster stability and long-term partnerships. In addition to supporting short- and medium-term investments, our focus for 2017 will continue to be on stimulating long-term investments, particularly in manufacturing. These elements, coupled with the specialised experience of business clients, constitute the foundation of our successful business model. The aim of our bank remains being a "partner bank" for small and medium-sized clients.

Private clients

In 2016, the bank continued to design advanced banking tools and to invest in the automation of its services in order to provide its clients with the easiest and most efficient methods of managing their funds. As in the past, this year, the bank strongly focused on improving its infrastructure and organisation with the aim of achieving this goal.

These investments have made it possible to automate the vast majority of the bank's services, both through the implementation of 24/7 Zones and through the continuous updating of its e-Banking platform. This has enabeled bank staff at all 41 locations to focus on providing clients with professional advice, financial education, and responsible lending services that are consistent with the bank's vision, the mission statement, strategy, and policies.

ProCredit Bank has continued to support the investment projects of its private clients. These projects directly contribute to the improvement of their quality of life. In 2016, ProCredit Bank mainly focused on supporting clients wishing to invest in immovable property. Therefore, the mortgage loan portfolio increased by 50% compared to the previous year.

A responsible approach to the environment is an important part of ProCredit Bank's social responsibility and an integral part of our banking philosophy. In this context, ProCredit Bank has continued to support its clients by financing measures that contribute to environmental protection and energy saving. In 2016, the development of the green loan portfolio was a priority and will continue to be high on the agenda in 2017. Green loans provide finan-

cial support for all investments in energy saving, renewable energy, and other eco-friendly investments.

It is important to keep in mind that 2016 was also characterised by fierce competition with regard to credit services for private clients. Nevertheless, ProCredit Bank managed to further improve the quality of its private client loan portfolio. At the same time, we managed to keep the loan portfolio – eco-loans, renovation loans, education loans, private loans, overdrafts, and credit cards – at a fairly good level and even with a slight increase compared to the previous year.

Deposits from private clients

This year, ProCredit Bank also underlined its credibility with regard to the stability of its clients' deposits, whether term deposit, savings, or current accounts. Deposits from private clients still make up the vast majority of bank deposits, reaching 76% of the total value for 2016. On the other hand, the bank has continued to regularly emphasise the role of saving in the lives of private clients, as it plays an important role in their financial stability. To this end, financial education was provided through regular consultations with our Client Advisers and periodic meetings held during the year with small groups of clients.

Alternative banking channels

In early 2016, the implementation of the bank's 24/7 Zones was successfully completed. Furthermore, the 24/7 Zone network was expanded, along with additional self-service options for clients.

As the number of services that can be carried out at these zones increased, the opportunity to provide clients with more comprehensive around-the-clock service also increased. While e-services in the past were considered alternative banking channels for transactions, they are now the primary and preferred way of banking at ProCredit Bank.

Despite the satisfactory level of withdrawals at ATMs in the previous year, it was deemed necessary to add options so that new types of transactions can be carried out at the 24/7 Zones and at ATMs in general. In this regard, as of February, the bank implemented the option to withdraw amounts ranging from EUR 2,000 to EUR 10,000. With this development and by enabling clients to make withdrawals from other accounts in addition to current and savings accounts, the bank is now ready to fulfill even the most complex requests clients may have.

Beginning in the second quarter of the year, cardholders were provided with the option of making deposits into their savings account and into the accounts of other ProCredit Bank clients at 24/7 Zones. By the end of the year, all types of deposits were made possible with the addition of coin deposit services at selected ATMs. The code deposit service was developed for clients who have not been issued cards. The bank's decision to issue savings cards also served to complete the range of services provided to all clients. During the year, there were numerous developments designed to enable our business clients to save time and improve their workflow. An option was added at our ATMs that allows business clients to declare their daily turnover with detailed information – a process that eases the cash reconciliation process. Larger amounts can be deposited at Drop Boxes. These deposits can be announced via e-Banking before the actual cash is deposited at a 24/7 Zone or at a POS terminal located in a 24/7 Zone. Furthermore, as of April, businesses now have the option of initiating transfers from credit lines in e-Banking – a service that makes banking even more convenient for businesses.

During the last quarter, the bank began issuing MasterCard debit cards equipped with contactless technology, which enables faster, contactless purchases and payments. By introducing this card, ProCredit Bank has become the first bank in the country to support rapid payment of small amounts. The bank network was upgraded with contactless POS terminals and we are now in a good position to broadly support this type of card, thus meeting our clients' need to make small payments quickly.

Risk management

Credit risk management

The core business of ProCredit bank is lending to small and medium business clients and to private individuals who would like to save. Given the business focus of our bank, classical credit risk is the most significant risk we face and accounts for the largest share of risk in the context of risk-bearing capacity calculation.

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

The bank applies various principles to mitigate credit risk, such as intensively analysing our clients' debt capacity and taking great care to avoid over-indebting them. In addition, the bank monitors credit exposures, closely 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 well-trained and highly motivated staff.

And, of course, the bank places great importance on portfolio analysis as one of the most important measures for mitigating credit risk. This approach is becoming increasingly critical for our bank and for the group as a whole due to the very dynamic macroeconomic environments we operate in and our changed business strategy. As a result, this year the bank introduced several reports and follow-up processes designed to identify credit risk arising from individual clients and at the portfolio level at an early stage by means of continuously monitoring early warning indicators. These reports are still in the testing phase, but the preliminary results show that they add considerable value to the credit risk management process.

Moreover, credit risk is mitigated by the fact that the bank's credit portfolio is highly diversified, and any potential concentration of credit risk is thoroughly tested for its impact on the bank's ability to absorb it. This diversification spans economic sectors and client groups, including medium-sized, small and very small businesses, as well as private individuals and institutions. A further characteristic of the bank's approach is that it seeks to provide clients with simple, easily understandable products. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and the simple, transparent products and procedures reduce the overall risk profile of the bank.

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

Considering that the vast majority of the bank's loans are repayable in monthly instalments, a borrower's failure to meet a payment deadline is treated as an initial sign of potential default and draws an immediate response from the bank. The new process of monitoring, which utilises early warning indicators, enables the bank to immediately respond to any sign of potential default. Nonetheless, for the majority of 2016, the key indicator for the quality of the loan portfolio and for measuring classical credit risk remained PAR>30 days, which considers only interest or principal payments that are overdue by more than 30 days. However, new criteria to measure credit risk were introduced in 2016, such as average days in arrears during the last three months and days in arrears during the month (and not only at the end of the month). These criteria are still in the testing phase and during the upcoming year we plan to introduce triggers for the new indicators mentioned above.

In 2016 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 issued to private households, due to the ongoing impact from the vulnerability of financial institutions to lending and continuous efforts to improve portfolio quality management. As a result, the bank's non-performing loans (NPL) ratio has continuously improved and stands well below the sectoral ratio. In addition, ProCredit Bank Kosovo takes a conservative approach to loan loss provisioning. Allowances for individually significant exposures with signs of impairment are individually assessed in periodic terms, whereas for other exposures, the minimum LLP reserve allocated reflects the probability of default and loss given default. As a result, coverage ratios at year-end stood at 152% (loan loss provisions according to the CBK as a percentage of PAR>30 days) and the coverage ratio for NPL stood at 171.8%. Loans considered to be irrecoverable are consistently written off, with recovery measures rigorously enforced.

Counterparty and issuer risk

In order to manage liquidity risk management and other operational activities, 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.

ProCredit Bank actively and carefully manages these risks through the Counterparty and Issuer Risk Management Policy, Treasury Policy, Investment Policy, and others. These policies and other procedures of the bank define the processes for selecting counterparties and setting exposure limits, as well as specify 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. Our 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.

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 can 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 liquidity risk, this leads to diversified and predictable inflows. On the other hand, deposits from clients are our main source of funding, so the use of financial market instruments is low.

As part of liquidity management, the bank has defined and continuously monitors its liquidity indicators. 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. During 2016, ProCredit Bank had a very satisfactory level of liquidity due to the high level of highly liquid assets; at the end of 2016, the highly liquid assets indicator stood at a robust 37%.

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

Foreign 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 the exchange rate. This risk is managed by ProCredit Bank in accordance with the Risk Manage-

ment of Foreign Currency Policy, which is compliant with the requirements of the CBK's Regulations on Risk from Foreign Currency Activities. Currency positions are managed on a daily basis and foreign exchange rates are monitored continuously.

As we hold no speculative open currency positions, ProCredit Bank has a low level of exposure to currency risk. Moreover, the bank has established limits for this risk, and these were not exceeded at any point during 2016. During this year, the bank had an open currency position of 0.21% of Tier 1 capital, in line with the CBK's requirements.

Interest rate risk

Interest rate risk arises from structural differences between the repricing maturities of assets and liabilities. This can expose the bank to the risk of potential increases in funding costs, while the return on assets might remain the same 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. Throughout 2016, the exposure to interest rate risk was within the approved limits.

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 2016, maintaining capital adequacy ratios above the limits set out in the bank's own policies and in banking regulations. During 2016, the bank's total capital adequacy ratio stood at 18.5%, which significantly exceeds the minimum ratio of 12% set by the local banking authorities. Furthermore, the Tier 1 capital adequacy ratio amounted to 16.1%, which likewise exceeds the 8% minimum ratio set by the CBK.

In 2016, Fitch Ratings upgraded the overall classification of ProCredit Bank to "BB-" from "B+".

Operational risk and fraud risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The bank 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.

To mitigate operational risk and fraud, all of the bank's major processes are properly documented and contain control mechanisms.

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

ProCredit Bank Kosovo aims to contribute to social and economic development by putting special emphasis on social responsibility when establishing relationships with its clients. The bank strongly supports the fight against money laundering and terrorist financing and does not enter into banking relationship with clients whose activity is in contradiction with our ethical values. Based on these principles, we have established strict rules to combat these negative phenomena.

To make sure that our institution fully complies with the requirements and obligations set forth under Kosovo banking industry legislation, regulations, rules and instructions, we have developed anti-money laundering policies and procedures. In addition to local policies, ProCredit Bank has also implemented the Group Anti-money Laundering Policy, which meets the requirements of German and EU legislation.

Moreover, ProCredit Bank applies the FATF recommendations on risk assessment, analysing the risks posed by money laundering and taking adequate measures as appropriate. Furthermore, the bank uses sophisticated software which enables better compliance with international sanctions and earlier detection of potentially suspicious transactions.

In our bank, the responsibility for combating money laundering is exercised by the Anti-Money Laundering Unit (AML Unit). The entire bank staff – in addition to the officers in the AML Unit –receives intensive training (both domestic and international) on the most recent updates in the field of combating money laundering and terrorist financing.

Employees and their development

In line with its mission and vision, ProCredit Bank worked very hard to achieve the objectives set forth in its business operations. These objectives cannot be reached without a team of motivated, dedicated, and well-trained employees; therefore, the bank continuously invests in developing its human resources. Starting with a transparent and fair recruitment and selection process, ProCredit Bank candidates and employees are treated equally and have numerous training opportunities, because we believe that competency and dedication are essential for the provision of high-quality services in a conscientious manner. For this reason, we place special importance on investing in the training and continuous development of our employees.

This investment consists of three main components: the ProCredit Academies, the Language Centres, and specialised and other training.

Employees and their development

ProCredit Academies and Language Centres

Advanced training sessions are held at both ProCredit Academies in Fürth, Germany: the ProCredit Banker Academy (a one-year programme), and the ProCredit Management Academy (a three-year part-time programme). In 2016, 14 employees were graduated from these academies: nine from the ProCredit Banker Academy and five from the ProCredit Management Academy. Currently, 32 other employees are attending studies at these Academies (14 at the Banker Academy and 18 at the Management Academy).

On top of that, English courses are provided to our staff at various levels, as English is the second working language at ProCredit Bank. This year alone, 70 employees participated in English courses, 37 at the Veles Language Centre in Macedonia, and 33 at the Fürth Language Centre in Germany.

Specialised and other training

Other training opportunities that were held during 2016 included 25 types of various specialised training events and other local courses.

Above all, ProCredit Bank Kosovo invested nearly EUR 1 million in staff training and development in 2016, which translates into an annual average investment of about EUR 2,000 per employee. In addition, the average number of training days in Kosovo and abroad is 6,500 – on average, each employee was provided with seven days of training in 2016.

This year, ProCredit Bank inaugurated the new Regional Training Centre in Prevalla, Prizren, where it will provide advanced training designed to deepen and update the specialised knowledge of employees of the ProCredit banks in both Kosovo and the region. The training content will be pertinent to the participants' scope of work, while also enhancing their analytical and interpersonal skills.

Choosing Kosovo as the site for building this centre – an investment of more than EUR 3.2 million by our bank – reflects ProCredit Bank's dedication towards further advancing human capacities and our commitment to developing the banking sector and economy of the country. The Regional Training Centre is the first building in Kosovo to be built in accordance with high ecological standards: to this end, investments were made in photovoltaic panels, water heating solar panels, thermal insulation, and a water treatment plant. The Regional Training Centre has an area of 3,300 m2, four fully equipped classrooms, 33 bedrooms, a restaurant, and opportunities for recreational sports.

ProCredit Entry Programme

Particular importance is given to supporting new employees who become part of our bank. For this reason, ProCredit Bank designed the ProCredit Entry Programme, which has been in place since 2011. By the end of 2016, 17 groups or 195 candidates had successfully completed the programme. The ProCredit Entry Programme, an international programme delivered in English, gathers candidates from the countries of the region. The programme lasts six months and provides candidates of various profiles with unique opportunities for comprehensive development and employment.

Building relationships

As in previous years, opportunities for internships at the bank were provided twice a year – during the summer and winter seasons – to students from public and prestigious private universities. Since the internship is a mandatory part of the curriculum of the majority of universities in Kosovo, by providing students with internship opportunities, ProCredit Bank plays an important role through its contribution to the financial education efforts in the country.

Every year, 100 students are offered three-month internships at the bank in order to help them practice the knowledge obtained at the faculty so that they can become integrated into the labour market more easily.

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2016

General information

Board of Directors:
Mr. Borislav Kostadinov, Chairperson
Ms. Helen Alexander
Mr. Rainer Ottenstein
Mr. Jordan Damchevski
Mr. Luan Gashi
Mr. Ilir Aliu

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Independent Auditor's Report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ProCredit Bank sh.a. (the "Bank") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Bank's financial statements comprise:

- the statement of profit or loss and other comprehensive income;
- the statement of financial position;
- the statement of cash flows;
- the statements of changes in equity; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") that are relevant to our audit of the financial statements in the Republic of Kosovo. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

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

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

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

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Registered with the Business Registration Agency in Kosovo with Business No. 70609711

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Kosovo sh.p.k

PricewaterhouseCoopers Kosovo sh.p.k
Prishtina, Kosovo
12 April 2017

	Note	2016	2015
Interest income	7	39,116	46,083
Interest expenses	7	(1,803)	(3,124)
Net interest income		37,313	42,959
Provision for impairment of loans to customers	13	(1,800)	(3,143)
Net interest income after provision for impairment of loans		**35,513**	**39,816**
Fee and commission income	8	9,609	10,495
Fee and commission expenses	8	(4,943)	(4,025)
Gains less losses from financial assets available for sale		-	3
Gains less losses from trading and foreign exchange translation		385	515
Other operating income		1,216	1,384
Administrative and other operating expenses	9	(23,943)	(27,605)
Profit before tax		**17,837**	**20,583**
Income tax expense	10	(1,778)	(2,213)
Profit for the year		**16,059**	**18,370**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Gains less losses arising during the year, net of tax	10	229	58
Total comprehensive income for the year		**16,288**	**18,428**

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 49.

	Note	2016	2015
Assets			
Cash and balances with central banks	11	121,264	164,808
Loans and advances to banks	12	67,004	81,861
Loans and advances to customers	13	452,514	436,730
Investment securities available for sale	14	131,378	88,012
Other financial assets	17	5,112	1,941
Current income tax prepayment	10	2,138	330
Deferred income tax assets	10	-	544
Other assets	18	5,059	890
Intangible assets	15	152	580
Property and equipment	16	16,376	16,097
Total assets		**800,997**	**791,793**
Liabilities			
Due to other banks	19	227	249
Due to customers	20	688,843	678,057
Borrowings	21	10,034	8,021
Subordinated debt	21	7,645	7,647
Deferred income tax liabilities	10	280	-
Other financial liabilities	22	1,385	1,267
Other liabilities	23	1,859	2,116
Total liabilities		**710,273**	**697,357**
Equity			
Share capital	24	61,346	61,346
Share premium	24	4,204	4,204
Contingency reserve	24	511	511
Revaluation reserve for securities available for sale	24	223	(6)
Retained earnings		24,440	28,381
Total equity		**90,724**	**94,436**
Total liabilities and equity		**800,997**	**791,793**

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 49.

These financial statements were approved by the Management Board on 11 April 2017 and signed on their behalf by:

Ilir Aliu
Chief Executive Officer

Rezak Fetai
Senior Manager

	Notes	2016	2015
Cash flows from operating activities			
Profit before tax		17,837	20,583
Adjustments for:			
Depreciation	16	2,374	2,080
Amortisation	15	846	864
Gains on disposal of property and equipment		(143)	(42)
Impairment losses	13	1,800	3,143
Interest income	7	(39,116)	(46,083)
Interest expense	7	1,803	3,124
Cash flows used in operating activities			
before changes in operating assets		**(14,599)**	**(16,331)**
Net (increase)/decrease in:			
Due from other banks		(3,667)	20,012
Loans and advances to customers		(17,997)	(25,029)
Other assets		(4,169)	(101)
Other financial assets		(3,171)	775
Balances with the Central Bank		(12,932)	18,089
Net increase/(decrease) in:			
Due to other banks		(22)	(33)
Due to customers		12,361	(5,692)
Other liabilities		(257)	(7)
Other financial liabilities		118	473
		(44,338)	(8,790)
Interest received		38,869	46,502
Interest paid		(3,368)	(5,712)
Income tax paid		(2,766)	(3,657)
Net cash (used in)/from operating activities		**(11,600)**	**28,343**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(86,712)	(82,885)
Proceeds from disposal of investment			
securities available for sale		44,262	90,180
Acquisition of premises and equipment	16	(2,674)	(7,837)
Proceeds from disposal of premises and equipment		163	4,150
Acquisition of intangible assets	15	(421)	(635)
Net cash (used in)/from investing activities		**(45,382)**	**2,973**
Cash flow from financing activities			
Proceeds from long term borrowings		2,000	951
Dividends paid	24	(20,000)	(20,000)
Net cash used in financing activities		**(18,000)**	**(19,049)**
Net (decrease)/increase in cash and cash equivalents		(74,982)	12,267
Cash and cash equivalents at the beginning of the year		221,982	209,715
Cash and cash equivalents at the end of the year	11	**147,000**	**221,982**

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 49.

	Share capital	Share premium	Contin-gency reserve	Retained earnings	Fair value reserve	Total
At 1 January 2015	**61,346**	**4,204**	**511**	**30,011**	**(64)**	**96,008**
Profit for the year	-	-	-	18,370	-	18,370
Other comprehensive income	-	-	-	-	58	58
Total comprehensive income	**-**	**-**	**-**	**18,370**	**58**	**18,428**
Dividends paid	-	-	-	(20,000)	-	(20,000)
Balance at 31 December 2015	**61,346**	**4,204**	**511**	**28,381**	**(6)**	**94,436**
Total comprehensive income						
Profit for the year	-	-	-	16,059	-	16,059
Other comprehensive income	-	-	-	-	229	229
Total comprehensive income				**16,059**	**229**	**16,288**
Dividends paid	-	-	-	(20,000)	-	(20,000)
Balance at 31 December 2016	**61,346**	**4,204**	**511**	**24,440**	**223**	**90,724**

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 49.

1. Introduction

ProCredit Bank sh.a. Kosovo ("the Bank") was incorporated in the Republic of Kosovo on 9 December 1999 as a joint stock company. The Bank began its operations on 12 January 2000.
The Bank is a fully owned subsidiary of ProCredit Holding AG & Co. KGaA (ProCredit Holding).
Principal activity The Bank was licensed to operate as a bank in all banking fields in Kosovo according to the rules of the Central Bank of Kosovo (former Central Banking Authority of Kosovo) ("CBK") and is currently subject to the Law "On Banks, Microfinance Institutions and Non-Bank Financial Institutions", No. 04/L-093. ProCredit Bank, which was the first licensed bank in Kosovo. is a development-oriented commercial bank which offers services to small and medium enterprises and to private individuals. In its operations, it adheres to a number of core principles: it values transparency in its communication with customers; seeks to minimise ecological footprint; and it provides services which are based both on an understanding of each client's situation and on sound financial analysis.

Registered address and place of business The Bank's registered address is Str. "George Bush", No 26, 10000 Prishtina, Republic of Kosovo. During 2016, the Bank operated with branches, service centres, service points and 24/7 (self-service) zones in order to provide customers with comprehensive and more accessible services.

Board of Directors:

- Mr. Borislav Kostadinov, Chairperson
- Ms. Helen Alexander, Member
- Mr. Rainer Ottenstein, Member
- Mr. Jordan Damchevski, Member
- Mr. Luan Gashi, Member
- Mr. Ilir Aliu, Member and CEO of the Bank

2. Significant accounting policies

(a) Basis of preparation

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

Use of judgements and estimates. 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.

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

(b) 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 include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

• interest on investment in securities available for sale calculated on an effective interest basis.

(c) Fees and commissions

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) 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.

(e) 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.

(f) Income tax

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

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

(iii) Uncertain tax positions

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

(g) Financial instruments

(i) Recognition

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

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

(ii) Classification

Financial assets

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

- loans and receivables; and
- available for sale.

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost [note 2(p)].

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(iii) Derecognition

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

(iv) Offsetting

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

(v) Amortised cost measurement

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

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

(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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. Financial derivatives or other financial assets and liabilities that are not traded in an active market are measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

(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; and
- Deterioration in the value of collateral.

The estimated period between 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.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

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 profit or loss for the year.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the past-due status, the Bank's grading process that considers asset type, industry, geographical location, collateral type 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 are assessed individually while credit exposures below this threshold level are considered insignificant and assessed on a collective basis showing indications of loss events. For insignificant impaired credit exposures, the following allowance levels are calculated by the Bank based on its historical experience in the economic environment in which it operates.

	Allowance Level 2016	Allowance Level 2015
arrears 0 – 30 days	2.05%	1.99%
arrears 31 – 90 days	55%	55%
arrears › 91 days	80%	75%
arrears › 180 days	90%	90%

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 and historical loss experience for assets with credit risk characteristics similar to those of 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 profit or loss, impairment charge for credit losses.

Impairment of financial assets available-for-sale

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss for the year.

(h) Cash and cash equivalents

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

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks and loans and advances to customers are classified as loans and receivables. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(j) Financial assets available for sale

This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are initially measured at fair value plus incremental direct transaction costs and subsequently carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

(k) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items of property and equipment.
Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.
The carrying values of property and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.
For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the

asset belongs. Impairment losses are recognised in profit or loss.

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

Description	Useful lifetime 2016	Useful lifetime 2015
Buildings	20 years	20 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
Motor vehicle	3-5years	3-5years
Other fixed assets	2-7 years	2-7 years

Property and equipment with useful lifetimes of more than one year which fall under the materiality threshold of EUR 50 (2015: EUR 50) and are also not material in aggregate are expensed in profit or loss. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other income or other operating expenses (as appropriate) in profit or loss.

2. Significant accounting policies (continued)

(l) Intangible assets

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

(m) Deposits and subordinated liabilities

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

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

(n) Provisions

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

(o) Employee benefits

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

(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 or originated.

(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. New standards, amendments and interpretations not yet adopted

Adoption of new or revised standards and interpretations

The following amended standards became effective from 1 January 2016, but did not have any material impact on the Bank.

• IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 is not relevant to the Bank's operations.

• Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). Such transactions are not relevant to the Bank.

• Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). The amendments did not impact the Bank's financial statements.

• Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). Subject matter is not relevant to the Bank's operations.

• Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The standard is not relevant to the Bank.

• Annual Improvements to IFRS 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). None of the improvements were relevant to the Bank's operations.

• Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The materiality concept introduced with the amendments and the guidance on subtotals did not impact the Bank's financial statements.

• Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The subject matter of the standards is not relevant to the Bank's operations.

New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

• Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

• Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

• Investments in equity instruments are always measured at fair value. However, management can make an irrevocable decision to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

3. New standards, amendments and interpretations not yet adopted (continued)

New accounting pronouncements (continued)

• Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
• IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
• Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 9 "Financial Instruments" will have an impact on the recognition and measurement, the impairment as well as on the disclosure requirements of financial instruments. The bank does not expect that the new classification requirements will have a material impact. Based on the preliminary assessment, the application of IFRS 9 impairment requirements is expected to result in an increase in loss allowance at the moment of transition and moderate increases for expenses for allowance for losses on loans and advances. The new hedge accounting requirements will not affect the financial statements as the Bank does not apply hedge accounting. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The new standard and amendment is not expected to have a material impact on the Bank's financial statements.

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

3. New standards, amendments and interpretations not yet adopted (continued)

New accounting pronouncements (continued)

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank will present this disclosure in its 2017 financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply a temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRS 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

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

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

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

(a) Assumptions and estimation uncertainties

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

(i) Impairment charge for credit losses

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on loans and advances by EUR 1,646 thousand (2015: EUR 1,709 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in impairment on loans and advances by EUR 946 thousand (2015: EUR 1,567 thousand), respectively.

(ii) Impairment of available for-sale investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an additional EUR 223 thousand (2015: EUR 6 thousand loss) in its financial statements, being the transfer of the total fair value reserve in profit or loss. See note 24.

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 minimise potential adverse effects on the Bank's financial performance.

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

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

(a) 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 fulfil an obligation. Credit risk is inherent in 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 centralised 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 regularly to the Management Board and to the Board of Directors.

(i) Analysis of credit quality

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

The table represents a worst-case scenario of credit risk exposure of the Bank at 31 December 2016 and 2015, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position .

Maximum exposure to credit risk

	Carrying amount	31.Dec.16 Amount committed/ guaranteed	Carrying amount	31.Dec.15 Amount committed/ guaranteed
Balances with central banks and treasury bills with maturities of less than 3 months	65,280	-	79,872	-
Loans and advances to banks	67,004	-	81,861	-
Loans and advances to customers	452,514	-	436,730	-
Available-for-sale financial assets	131,378	-	88,012	-
Other financial assets	5,112	-	1,941	-
Lending commitments and guarantees	-	88,368	-	85,591
Total	**721,288**	**88,368**	**688,416**	**85,591**

Off-balance sheet	31.Dec.16	31.Dec.15
Credit commitments	61,280	55,946
Financial guarantees	26,552	28,094
Letters of credit	536	1,551
	88,368	85,591
Provisions recognised as liabilities	(260)	(278)
Total	**88,108**	**85,313**

5. Financial risk management (continued)
(a) Credit risk (continued)
(i) Analysis of credit quality (continued)
Cash and balances with central banks

The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government have not been provided with a rating by recognised rating agencies.

In thousands of euros	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
31 December 2016				
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		7,309	-	7,309
- Mandatory reserve		37,610	-	37,610
- Government securities		-	3,000	3,000
Central Bank of the Republic of Germany				
(Deutsche Bundesbank)	AAA	17,361	-	17,361
Total cash and cash equivalents,				
excluding cash on hand		**62,280**	**3,000**	**65,280**

In thousands of euros	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
31 December 2015				
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		52,546	-	52,546
- Mandatory reserve		24,678	-	24,678
- Government securities		-	250	250
Central Bank of the Republic of Germany				
(Deutsche Bundesbank)	AAA	2,398	-	2,398
Total cash and cash equivalents,				
excluding cash on hand		**79,622**	**250**	**79,872**

Due from banks

Interbank exposures are closely monitored on a daily basis by risk management and treasury units. The Bank limits its deposits and other banking transactions to financially sound international banks. Before a business relationship is initiated with a given bank, the Management of the Bank and the Risk Management Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's. The risk management function, which is independent from the treasury unit, performs monitoring to ensure that the exposure toward all banks does not exceed regulatory limits or internal limits set by the Management of the Bank. Thus, risk management supports the treasury unit by providing daily reports that indicate the exposures and placements that can be made to all correspondent banks without violating present exposure limits.

In accordance with the 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 1 Regulatory Capital. Additionally, in order to further reduce counterparty risk, the ALCO approves internal limits on counterparty exposures which are slightly below the regulatory requirements. The Bank has maintained compliance with regulatory limits at all times.

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Analysis of credit quality (continued)

Due from banks (continued)

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

	31 December 2016	31 December 2015
Neither past due nor impaired		
- AA+ to AA- rating	33,636	34,859
- A+ to A- rating	14,085	22,960
- BBB+ to B- rating	19,283	24,042
Total due from other banks	**67,004**	**81,861**

Loans and advances to customers

31 December 2016	Private	Business	Total
Total gross amount	139,825	335,191	475,016
Allowance for impairment (individual and collective)	(7,911)	(14,591)	(22,502)
Net carrying amount	**131,914**	**320,600**	**452,514**
At amortised cost			
Neither past due nor impaired	129,599	310,480	440,079
Past due but not impaired	5,811	8,697	14,508
Impaired	4,415	16,014	20,429
Total gross amount	**139,825**	**335,191**	**475,016**
Allowance for impairment (individual and collective)	(7,911)	(14,591)	(22,502)
Net carrying amount	**131,914**	**320,600**	**452,514**
Loans with renegotiated terms			
Carrying amount	3,505	25,936	29,441
Of which: Impaired	1,242	10,998	12,240
Allowance for impairment	(1,510)	(5,319)	(6,829)
Net carrying amount	**1,995**	**20,617**	**22,612**
Past due but not impaired			
Past due 0 – 30 days	3,477	7,340	10,817
Past due 31 – 90 days	1,267	741	2,008
Past due 91 – 180 days	1,067	616	1,683
	5,811	8,697	14,508
Impaired			
Past due 0 – 30 days	498	8,342	8,840
Past due 31 – 90 days	129	1,766	1,895
Past due 91 – 180 days	114	2,026	2,141
Past due over 180 days	3,674	3,880	7,553
	4,415	16,014	20,429
Allowance for impairment			
Individual	(1,652)	(8,585)	(10,237)
Collective	(6,259)	(6,006)	(12,265)
Total allowance for impairment	**(7,911)**	**(14,591)**	**(22,502)**

5. Financial risk management (continued)
(a) Credit risk (continued)
(i) Analysis of credit quality (continued)

31 December 2015	Private	Business	Total
Total gross amount	131,916	330,654	462,570
Allowance for impairment (individual and collective)	(7,297)	(18,543)	(25,840)
Net carrying amount	**124,619**	**312,111**	**436,730**
At amortised cost			
Neither past due nor impaired	122,537	296,863	419,400
Past due but not impaired	5,615	7,769	13,384
Impaired	3,764	26,022	29,786
Total gross amount	**131,916**	**330,654**	**462,570**
Allowance for impairment (individual and collective)	(7,297)	(18,543)	(25,840)
Net carrying amount	**124,619**	**312,111**	**436,730**
Loans with renegotiated terms			
Carrying amount	2,544	42,433	44,977
Of which: Impaired	705	21,322	22,027
Allowance for impairment	(953)	(9,626)	(10,579)
Net carrying amount	**1,591**	**32,807**	**34,398**
Past due but not impaired			
Past due 0 – 30 days	2,907	5,710	8,617
Past due 31 – 90 days	1,409	1,247	2,656
Past due 91 – 180 days	1,299	812	2,111
	5,615	**7,769**	**13,384**
Impaired			
Past due 0 – 30 days	443	16,194	16,637
Past due 31 – 90 days	157	742	899
Past due 91 – 180 days	65	1,895	1,960
Past due over 180 days	3,099	7,191	10,290
	3,764	**26,022**	**29,786**
Allowance for impairment			
Individual	(1,096)	(11,708)	(12,804)
Collective	(6,201)	(6,835)	(13,036)
Total allowance for impairment	**(7,297)**	**(18,543)**	**(25,840)**

Impairment and provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred as of the reporting date based on objective evidence of impairment [see Accounting Policy 2 (g) (vii)].

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances demand it. Impairment allowances on individually assessed 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 exposures. 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 credit risk characteristics. The quantitative default rates calculated in this manner were subjected to a qualitative analysis (migration analysis).

5. Financial risk management (continued)
(a) Credit risk (continued)
(i) Analysis of credit quality (continued)
Loans and advances to customers (continued)

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: in this category, the Bank would provision all individually significant credit exposures with objective evidence of impairment.

Portfolio-based impairment: in this category, the Bank would provision all significant credit exposures which the Bank determines are not impaired as well as insignificant exposures, according to their similar credit risk characteristics.

Lump-sum specific provisions: in this category, the Bank would provision all individually insignificant credit exposures based on the number of days in arrears (more than 30 days in arrears).

Past due but not impaired loans

Past due but not impaired loans are loans where the contractual interest or principal payments are past due, but the Bank concludes, based on the individual assessment made, 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, i.e. any modification of the terms and conditions of a credit exposure by agreement between the Bank and the customer, 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, than could be achieved through the legal recovery process;
- the new payment plan is in line with the actual and expected future payment capacity of the borrower; and/or
- the borrower offers additional collateral, if possible and appropriate.

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

Write-off policy

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

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.

5. Financial risk management (continued)
(a) Credit risk (continued)
(i)Analysis of credit quality (continued)
Financial assets available for sale (continued)

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

31 December 2016	Kosovo Government bonds	OECD G overnment bonds	Total
Neither past due nor impaired			
- AAA rated	-	25,316	25,316
- AA+ rated	-	81,460	81,460
- Unrated (at Government or Country level)	24,602	-	24,602
Total debt securities available for sale	**24,602**	**106,776**	**131,378**

31 December 2015	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	56,227	56,227
- AA+ rated	-	7,485	7,485
- Unrated (at Government or Country level)	24,300	-	24,300
Total debt securities available for sale	**24,300**	**63,712**	**88,012**

Lending commitments and financial guarantees

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

(ii) Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

5. Financial risk management (continued)
(a) Credit risk (continued)
(ii) Risk limit control and mitigation policies (continued)
Collateral held and other credit enhancements, and their financial effect (continued)

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

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

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

	Over-collateralised		Under-collateralised	
At 31 December 2016	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	222,497	718,041	98,104	75,670
Private	36,263	116,353	95,650	29,755
	258,760	**834,394**	**193,754**	**105,425**

	Over-collateralised		Under-collateralised	
At 31 December 2015	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	242,787	828,461	69,325	58,478
Private	33,958	106,520	90,660	36,680
	276,745	**934,981**	**159,985**	**95,158**

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

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

Geographical sectors
The following table breaks down the Bank's main credit exposure at their gross amount, as categorised by geographical region as at 31 December 2016 and 2015. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

5. Financial risk management (continued)
(a) Credit risk (continued)
(iii) Concentration of credit risk (continued)

	OECD countries	Kosovo	2016 Total	OECD countries	Kosovo	2015 Total
Assets						
Balances with the Central Banks	17,361	47,919	65,280	2,398	77,474	79,872
Loans and advances to banks	67,004	-	67,004	81,861	-	81,861
Loans and advances to customers	-	452,514	452,514	-	436,730	436,730
Available-for-sale f inancial assets	106,776	24,602	131,378	63,712	24,300	88,012
Other financial assets	-	5,112	5,112	-	1,941	1,941
	191,141	**530,147**	**721,288**	**147,971**	**540,445**	**688,416**
Liabilities						
Due to other banks	99	128	227	124	125	249
Due to customers	42,699	646,144	688,843	44,125	633,932	678,057
Borrowings	10,034	-	10,034	8,021	-	8,021
Subordinated debt	7,645	-	7,645	7,647	-	7,647
Other financial liabilities	-	1,385	1,385	-	1,267	1,267
	60,477	**647,657**	**708,134**	**59,917**	**635,324**	**695,241**

Industry

	Private	Business	2016 Total	Private	Business	2015 Total
Assets						
Balances with the Central Banks	-	65,280	65,280	-	79,872	79,872
Loans and advances to banks	-	67,004	67,004	-	81,861	81,861
Loans and advances to customers	128,826	323,688	452,514	124,221	312,509	436,730
Available-for-sale financial assets	-	131,378	131,378	-	88,012	88,012
Other financial assets	-	5,112	5,112	-	1,941	1,941
Total assets	**128,826**	**592,462**	**721,288**	**124,221**	**564,195**	**688,416**
Liabilities						
Due to other banks	-	227	227	-	249	249
Due to customers	545,081	143,762	688,843	549,787	128,270	678,057
Borrowings	-	10,034	10,034	-	8,021	8,021
Subordinated debt	-	7,645	7,645	-	7,647	7,647
Other financial liabilities	-	1,385	1,385	-	1,267	1,267
Total liabilities	**545,081**	**163,053**	**708,134**	**549,787**	**145,454**	**695,241**

(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.

5. Financial risk management (continued)
(b) Market risk (continued)
(i) Foreign currency risk

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

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

The Treasury unit also observes the financial market and informs the Risk Management Department regularly of significant developments that may influence the currency risk situation of the Bank.

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

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

	31 December 2016	31 December 2015
1 USD	0.9487	0.9185
1 CHF	0.9312	0.9229
1 GBP	1.1680	1.3625

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2016 and 2015 as translated into EUR thousands..

5. Financial risk management (continued)
(b) Market risk (continued)
(i) Foreign currency risk (continued)

31 December 2016	EUR	USD	CHF	GBP	Total
Assets					
Cash and balances with the central banks	120,380	319	546	19	121,264
Loans and advances to banks	52,417	14,088	435	64	67,004
Loans and advances to customers	451,320	1,194	-	-	452,514
Available-for-sale financial assets	121,890	9,488	-	-	131,378
Other financial assets	4,519	593	-	-	5,112
Total monetary financial assets	**750,526**	**25,682**	**981**	**83**	**777,272**
Liabilities					
Due to banks	226	-	1	-	227
Due to customers	661,999	25,812	950	82	688,843
Borrowings and subordinated debt	17,679	-	-	-	17,679
Other financial liabilities	1,212	173	-	-	1,385
Total monetary financial liabilities	**681,116**	**25,985**	**951**	**82**	**708,134**
Net on-balance sheet financial position	**69,410**	**(303)**	**30**	**1**	**69,138**
Credit commitments	61,224	56	-	-	61,280
Off-balance sheet - letters of credit	529	7	-	-	536
Off-balance sheet - bank guarantees	26,457	95	-	-	26,552
Total credit-related commitments	**88,210**	**158**	**-**	**-**	**88,368**

31 December 2015	EUR	USD	CHF	GBP	Total
Assets					
Cash and balances with the central banks	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**

5. Financial risk management (continued)
(b) Market risk (continued)
(i) Foreign currency risk (continued)

The table below summarises the sensitivity analysis for foreign currency risk and the effect on the profit or loss and net equity of the Bank net of tax:

			Effect on profit or loss and net equity	
	Increase 2016	Increase 2015	31 December 2016	31 December 2015
USD	10%	10%	32	11
Other	10%	10%	3	8

(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 speculation in the interest rate market. Instead, the Bank seeks to ensure that the structure of assets and liabilities is balanced across all maturities.

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

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

EUR interest sensitivity gap At 31 December 2016		Up to 1 month	1-6 months	6-12 mo-nths	1-2 years	2-5 years	More than 5 years	Total interest sensitive	Not interest sensitive
Assets									
Cash on hand		-	-	-	-	-	-	-	55,665
Balances with central bank		27,670	-	-	-	-	-	27,670	37,610
Current accounts with banks		23,541	-	-	-	-	-	23,541	1,361
T-bills and marketable securities	Fixed	30,000	15,920	25,610	11,690	1,300	-	84,520	2,867
	Variable	10,000	24,000	-	-	-	-	34,000	504
Term deposits with banks		7,500	16,500	-	-	-	-	24,000	4,014
Loans and advances to customers	Fixed	23,951	91,042	109,388	90,089	108,082	14,169	436,721	2,000
	Variable	12,598	-	-	-	-	-	12,598	-
Other financial assets		-	-	-	-	-	-	-	4,519
Total assets		**135,260**	**147,462**	**134,998**	**101,779**	**109,382**	**14,169**	**643,050**	**108,540**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	227
Current accounts from customers		28,126	18,751	22,501	45,002	73,129	-	187,509	398,853
Deposits from customers		7,139	20,786	29,099	8,219	8,416	171	73,830	2,838
Borrowings and subordinated debt	Fixed	-	-	-	-	-	10,000	10,000	34
	Variable	-	7,500	-	-	-	-	7,500	145
Other financial liabilities		-	-	-	-	-	-	-	1,212
Total liabilities		**35,265**	**47,037**	**51,600**	**53,221**	**81,545**	**10,171**	**278,839**	**403,309**
IR sensitivity gap-									
open position		**99,995**	**100,425**	**83,398**	**48,558**	**27,837**	**3,998**	**364,211**	**n/a**

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	1-6 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 Banks		250	-	-	-	-	-	250	79,622
Current accounts with banks		16,681	-	-	-	-	-	16,681	2,539
T-bills and marketable securities	Fixed	2,000	13,700	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	22,024	84,957	100,245	93,867	111,748	15,316	428,156	2,413
	Variable	3,713	-	-	-	-	-	3,713	
Other financial assets		-	-	-	-	-	-	-	1,367
Total assets		**65,568**	**144,607**	**121,245**	**116,967**	**112,298**	**15,316**	**576,000**	**171,966**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	249
Current accounts from customers		30,074	20,050	24,059	48,118	78,192	-	200,493	351,038
Deposits from customers		9,515	26,426	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 financial liabilities		-	-	-	-	-	-	-	574
Total liabilities		**39,589**	**53,976**	**62,924**	**60,182**	**88,086**	**8,491**	**313,248**	**355,847**
IR sensitivity gap- open position		**25,979**	**90,631**	**58,321**	**56,785**	**24,212**	**6,825**	**262,752**	**n/a**

5. Financial risk management (continued)
(b) Market risk (continued)
(ii) Interest rate risk (continued)

USD interest sensitivity gap At 31 December 2016		Up to 1 month	1-6 months	6-12 months	1-2 years	2-5 years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	319
Current accounts with banks		4,083	-	-	-	-	4,083	-
T-bills and marketable securities	Fixed	-	-	-	9,487	-	9,487	-
Term deposits with banks		4,743	5,218	-	-	-	9,961	44
Loans and advances to customers	Fixed	75	1,025	94	-	-	1,193	2
Other financial assets		-	-	-	-	-	-	593
Total assets		**8,901**	**6,243**	**94**	**9,487**	**-**	**24,724**	**958**
Current accounts from customers		1,195	797	956	1,913	3,108	7,969	17,642
Deposits from customers		2	85	114	-	-	201	1
Other financial liabilities		-	-	-	-	-	-	173
Total liabilities		**1,197**	**882**	**1,070**	**1,913**	**3,108**	**8,170**	**17,816**
IR sensitivity gap- open position		**7,704**	**5,361**	**(976)**	**7,574**	**(3,108)**	**16,554**	**n/a**

At 31 December 2015		Up to 1 month	1-6 months	6-12 months	1-2 years	2-5 years	Total interest sensitive	Not interest sensitive
Cash on hand		-	-	-	-	-	-	1,114
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	1,872	155	141	266	2,444	4
Other financial assets		-	-	-	-	-	-	1,266
Total assets		**8,444**	**13,813**	**155**	**141**	**266**	**22,819**	**3,299**
Current accounts from customers		1,335	891	1,068	2,137	3,472	8,903	16,305
Deposits from customers		2	100	142	-	-	244	1
Other financial liabilities		-	-	-	-	-	-	-
Total liabilities		**1,337**	**991**	**1,210**	**2,137**	**3,472**	**9,147**	**16,306**
IR sensitivity gap- open position		**7,107**	**12,822**	**(1,055)**	**(1,996)**	**(3,206)**	**13,672**	**n/a**

The analysis and calculations are done to quantify the effect on interest rate movements on the economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering EUR and USD denominated asset and liability structures as at 31 December 2016 and 2015, and assuming a parallel shift of interest rates of +/-200bp in rate-sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

Increase in interest rates of 200bp Assets and Liabilities in:	Interest earning decline over the next 3 months 2016	2015	Interest earning decline over the next year 2016	2015	Economic Value Impact 2016	2015
EUR	491	183	3,794	2,124	(6,133)	(6,129)
USD	41	51	232	346	(79)	167

5. Financial risk management (continued)

(c) Liquidity risk

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

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

The Bank aims to keep the expected cumulative maturity gap positive at all times. Should the expected cumulative maturity gap be negative, the Bank considers the liquidity as a "watch liquidity position".

The figures reported on the reporting tool below do not match with the statement of financial position figures, which is due to the fact that apart from on-balance positions the Bank has taken into consideration the off-balance sheet positions as well. All financial assets and liabilities are reported based on the timing when liabilities (including contingent liabilities from the Bank's guarantees and letters of credit and other credit-related commitments) become due and assets can be used as a repayment source (including the off-balance sheet items like unused irrevocable and unconditional credit commitments which the Bank can use as liquidity source at any time without a prior approval).

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

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

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

As at 31 December 2016	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	55,984	-	-	-	-	55,984
Reserves with the Central Bank	37,610	-	-	-	-	37,610
Current accounts with the Central Banks	27,670	-	-	-	-	27,670
Current accounts with banks	28,985	-	-	-	-	28,985
Unused credit commitments	-	-	-	-	-	-
T-bills and marketable securities	30,000	6,247	9,660	26,377	57,893	130,177
Assets 1-S						
Term deposits with banks	12,261	22,131	-	2,406	1,250	38,048
Loans and advances to customers	24,315	38,437	62,797	112,825	292,552	530,926
Total Assets	**216,825**	**66,815**	**72,457**	**141,608**	**351,695**	**849,400**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	128	-	-	-	-	128
Due to customers (due daily)	605,178	-	-	-	-	605,178
Contingent liabilities from guarantees	27,086	-	-	-	-	27,086
Unused credit commitments	61,280	-	-	-	-	61,280
Liabilities 1-S						
Due to customers	7,765	8,916	13,699	31,238	22,715	84,333
Borrowings and subordinated debt	-	263	-	397	21,673	22,333
Total Contractual Liabilities	**701,437**	**9,179**	**13,699**	**31,635**	**44,388**	**800,338**
Periodic Contractual Liquidity Gap	**(484,612)**	**57,636**	**58,758**	**109,973**	**307,307**	**49,062**
Cumulative Contractual Liquidity Gap	**(484,612)**	**(426,976)**	**(368,218)**	**(258,245)**	**49,062**	**-**
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	64					64
Due to customers (due daily)	41,055	11,802	17,511	10,904	523,907	605,178
Contingent liabilities from guarantees	1,354	-	-	-	-	1,354
Unused credit commitments	6,128	-	-	-	-	6,128
Liabilities 1-S						
Due to customers	7,765	8,916	13,699	31,238	22,715	84,333
Borrowings and subordinated debt	-	263	-	397	21,673	22,333
Total Expected Liabilities	**56,366**	**20,981**	**31,210**	**42,539**	**568,295**	**719,391**
Periodic Expected Liquidity Gap	**160,458**	**45,834**	**41,248**	**99,069**	**(216,600)**	**130,009**
Cumulative Expected Liquidity Gap	**160,458**	**206,292**	**247,540**	**346,609**	**130,009**	**-**

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 Banks	55,194	-	-	-	-	55,194
Current accounts with banks	26,113	-	-	-	-	26,113
Unused credit commitments	17,000	-	-	-	-	17,000
T-bills and marketable securities	2,006	11,244	9,901	21,484	42,656	87,291
Assets 1-S						
Term deposits with banks	23,201	32,544	-	-	-	55,745
Loans and advances to customers	26,102	38,178	57,652	110,009	295,144	527,085
Total Assets	**259,230**	**81,966**	**67,553**	**131,493**	**337,800**	**878,042**
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	9,833	12,379	16,216	41,138	30,151	109,717
Borrowings and subordinated debt	-	263	25	327	20,266	20,881
Total Contractual Liabilities	**665,803**	**12,642**	**16,241**	**41,465**	**50,417**	**786,568**
Periodic Contractual Liquidity Gap	**(406,573)**	**69,324**	**51,312**	**90,028**	**287,383**	**91,474**
Cumulative Contractual Liquidity Gap	**(406,573)**	**(337,249)**	**(285,937)**	**(195,909)**	**91,474**	**-**
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	124	125	-	-	-	249
Due to customers (due daily)	85,780	23,030	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	9,833	12,379	16,216	41,138	30,151	109,717
Borrowings and subordinated debt	-	263	25	327	20,266	20,881
Total Expected Liabilities	**108,408**	**35,797**	**50,413**	**109,809**	**409,221**	**713,648**
Periodic Expected Liquidity Gap	**150,822**	**46,169**	**17,140**	**21,684**	**(71,421)**	**164,394**
Cumulative Expected Liquidity Gap	**150,822**	**196,991**	**214,131**	**235,815**	**164,394**	**-**

For liquidity purposes the Bank classifies demand and savings deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap up to twelve months is increased. However, the likelihood that large amounts of customer deposits will leave the Bank is very low. Therefore the Bank does not consider that is has a liquidity gap in the short term. Instead, it focuses on the expected maturity gap, which represents a more likely scenario. The Bank maintains 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 monitors 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 2016, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed the results regularly in the Bank's Risk Management Committee and ALCO. The stress test is performed by applying three different scenarios as per the Liquidity Risk Management Policy, starting from less to more conservative scenarios. When the Management Board and Risk Management Department have concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

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 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 regulatory capital of EUR 7,000 thousand, to maintain a ratio of Tier 1 capital to risk-weighted assets (the 'Basel ratio') at or above 8% (Actual 2016: 15.04%), and to maintain a total regulatory capital ratio, including Tier 2, to risk-weighted assets at or above 12% (Actual 2016: 17.52%). Therefore, based on the respective ratios, the Bank was in compliance with the capital adequacy requirements as at the reporting dates 31 December 2016 and 2015.

As at 31 December 2016 and 2015, the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2016	2015
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	511	511
Retained earnings	22,109	32,225
less: Intangible assets	(152)	(581)
less: Credit to Bank-related persons	(4,538)	(5,812)
less: Deferred tax assets	-	(116)
Total qualifying Tier 1 capital	**83,480**	**91,777**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	6,235	6,216
Total qualifying Tier 2 capital	**13,735**	**13,716**
Total regulatory capital	**97,215**	**105,493**
Risk-weighted assets:		
On-balance sheet	479,883	470,436
Off-balance sheet	18,900	26,865
Risk assets for operational risk	56,106	59,964
Total risk-weighted assets	**554,889**	**557,265**
Tier 1 capital adequacy ratio	**15.04%**	**16.47%**
Tier 2 capital adequacy ratio	**17.52%**	**18.93%**

[1]The retained earnings qualifying for Tier 1 capital are based on the financial statements prepared in accordance with the methodology on reporting set by the Central Bank of Kosovo.

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 utilisation of its RAtCR as of 31 December 2016. Counterparty and market risk limit utilisation 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 2016 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.

6. Fair values of financial instruments (continued)

(a) Valuation models (continued)

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

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

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

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

(b) Financial instruments measured at fair value

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

Available-for-sale financial assets (debt)	Total Fair Value	Level 1	Level 2	Level 3
31 December 2016	**131,309**	106,777	24,532	-
Bonds	114,896	106,777	8,119	-
Treasury bills	16,413	-	16,413	-
31 December 2015	**87,954**	63,654	24,300	-
Bonds	71,345	63,654	7,691	-
Treasury bills	16,609	-	16,609	-

6. Fair values of financial instruments (continued)

(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 categorised.

	31 December 2016			31 December 2015		
	Carrying value	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 2	Fair value Level 3
Financial Assets						
Loans and receivables						
Cash and balances with the Central Banks	**121,264**	121,264	-	**164,808**	164,808	-
Loans and advances to banks	**67,004**	67,004	-	**81,861**	81,861	-
Current accounts	33,016	33,016	-	26,113	26,113	-
Time deposits with banks	33,988	33,988	-	55,748	55,748	-
Loans and advances to customers	**452,514**	-	441,295	**436,730**	-	424,263
Fixed loans	327,322	-	315,972	343,946	-	331,390
Agricultural loans	29,732	-	29,344	35,357	-	34,055
Business loans	201,614	-	194,734	203,510	-	194,626
Private loans	9,523	-	9,144	7,075	-	6,962
Housing loans	86,453	-	82,750	98,004	-	95,747
Other loans	125,192	-	125,323	92,784	-	92,873
Other financial assets	**5,112**	5,112	-	**1,941**	1,941	-
Financial Liabilities						
Due to banks	**227**	227	-	**249**	249	-
Customer deposits	**688,843**	612,638	75,957	**678,057**	576,922	100,753
Current accounts	407,149	407,149	-	365,698	365,698	-
Savings accounts	195,234	195,234	-	209,041	209,041	-
Term deposits	76,205	-	75,957	101,135	-	100,753
Other customer accounts	10,255	10,255	-	2,183	2,183	-
Borrowings and subordinated debt	**17,679**	-	17,452	**15,668**	-	15,360
Borrowings	10,034	-	9,807	8,021	-	7,713
Subordinated debts	7,645	-	7,645	7,647	-	7,647
Other financial liabilities	**1,385**	1,385	-	**1,267**	1,267	-

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 the Bank's own fair value model, such as the discounted cash flow technique. Input using the valuation technique includes expected lifetime credit losses, interest rates and prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. For retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics.

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

7. Net interest income

	2016	2015
Interest income		
Loans and advances to customers	39,160	45,603
Loans and advances to banks	284	387
Available-for-sale financial assets	(460)	7
Other	132	86
Total interest income	**39,116**	**46,083**
Interest expense		
Due to customers	1,021	1,998
Borrowed funds	654	973
Other	128	153
Total interest expense	**1,803**	**3,124**
Net interest income	**37,313**	**42,959**

Interest income from loans and advances to customers for the year ended 31 December 2016 includes EUR 469 thousand (2015: EUR 731 thousand) and EUR 1,194 thousand (2015: EUR 1,628 thousand) related to accrued interest and unwinding of the discount of impaired loans and advances to customers, respectively.

8. Net fee and commission income

	2016	2015
Fee and commission income		
Payment transfers and transactions	4,075	4,594
Debit and credit cards	2,755	2,665
Account maintenance fees	1,321	1,260
Letters of credit and guarantees	732	1,179
Other fees and commissions	726	797
Total fee and commission income	**9,609**	**10,495**
Fee and commission expense		
IT provider and related services	1,281	1,242
Fees and commissions on bank accounts	606	525
Other fees to banks	860	507
Fees and expenses related to cards	602	444
Third-party transaction fees	1,322	1,006
Other fees	272	301
Total fee and commission expense	**4,943**	**4,025**
Net fee and commission income	**4,666**	**6,470**

9. Administrative and other operating expenses

	2016	2015
Personnel expenses (see below)	7,426	9,728
Depreciation and amortisation (see notes 15 and 16)	3,221	2,944
Other expenses	2,281	2,434
Rental expenses	1,826	2,080
Maintenance and repairs	1,785	1,519
Consulting and legal fees	1,537	1,118
Deposit insurance fund	1,116	752
Training costs	831	759
Expenses for ProCredit Holding and Academies	735	778
Advertising and promotion costs	529	866
Utilities	509	757
Security services	505	626
Communication (telephone, on-line connection)	460	605
Royalties on software	399	379
Office supplies	257	229
Disposal for property and equipment	206	1,513
Transport (fuel, maintenance)	200	319
Provision for guarantees given	120	199
	23,943	**27,605**

As of 31 December 2016 the Bank had 465 employees (2015: 544 employees).

	2016	2015
Wages and salaries	6,618	8,000
Pension contribution	335	397
Fringe benefits	111	160
Other compensations	362	1,171
	7,426	**9,728**

10. Income taxes

(a) Amounts recognised in profit or loss

	2016	2015
Current tax expenses	980	2,956
Deferred tax income	798	(743)
Income tax expense	**1,778**	**2,213**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates applicable at the reporting date. The tax rate on corporate income is 10% (2015: 10%).

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

	2016			2015		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Available-for-sale investments	254	(25)	229	64	(6)	58
Total (see Note 24)	**254**	**(25)**	**229**	**64**	**(6)**	**58**

10. Income taxes (continued)
(c) Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2015: 10%) to current income tax expense:

	2016	2015
Profit before tax	17,837	20,583
Tax using the corporate tax rate	1,784	2,058
Exempt income	(144)	(68)
Non-deductible expenses	138	223
	1,778	**2,213**

Prepaid income tax as at 31 December 2016 was EUR 2,138 thousand (31 December 2015: EUR 330 thousand).

(d) Movement in deferred tax balances

Deferred tax is calculated based on the applicable tax rate of 10% (2015: 10%).

	2016	Profit or loss	OCI	2015	Profit or loss	OCI	2014
Deferred tax assets							
Accrued interest from loans	-	-	-	-	-	-	-
Available-for-sale investments	-	-	(1)	2	-	(6)	8
Accrued interest from deposits	52	(47)	-	99	(77)	-	176
Depreciation for property and equipment	-	(17)	-	17	20	-	(3)
Provisions for loan impairment	-	(496)	-	496	759	-	(263)
	52	**(560)**	**(1)**	**614**	**702**	**(6)**	**(82)**
Deferred tax liabilities							
Accrued interest from loans	(46)	24	-	(70)	41	-	(111)
Available-for-sale investments	(25)	-	(25)	-	-	-	-
Accrued interest from deposits	-	-	-	-	-	-	-
Depreciation for property and equipment	(49)	(49)	-	-	-	-	-
Provisions for loan impairment	(212)	(212)	-	-	-	-	-
	(332)	**(237)**	**(25)**	**(70)**	**41**	**-**	**(111)**
Net deferred tax assets/(liabilities)	**(280)**	**(797)**	**(26)**	**544**	**743**	**(6)**	**(193)**

11. Cash and balances with central banks

	2016	2015
Cash on hand	55,984	84,936
Kosovo Government Securities (with maturities of 3 months or less)	3,000	250
Amounts held at the CBK		
Current accounts	7,309	52,546
Statutory reserves	37,610	24,678
Balance with Deutsche Bundesbank	17,361	2,398
	121,264	**164,808**

In accordance with CBK requirements 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. The amounts held at the CBK should not be less than half of the total statutory reserves [note 5(d)]. For the ratings, refer to note 5(a)(i).

Cash and cash equivalents as at 31 December 2016 and 2015 are presented as follows:

	2016	2015
Cash and balances with central banks	121,264	164,808
Statutory reserves	(37,610)	(24,678)
Loans and advances to banks with original maturities of 3 months or less (note 12)	63,346	81,852
	147,000	**221,982**

12. Loans and advances to banks

	2016	2015
Current accounts	33,016	26,113
Time deposits with banks	33,988	55,748
	67,004	**81,861**

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

- Deposits in EUR: from (0.38)% to 0.07 % p.a. (2015: from (0.15)% to 0.07% p.a.); and
- Deposits in USD: from 0.42% to 1.05% p.a. (2015: from 0.42% to 0.40% p.a.).

13. Loans and advances to customers

	2016	2015
Loans to customers	427,635	413,989
Overdrafts	46,695	47,783
Credit cards receivable	686	798
	475,016	**462,570**
Impairment allowance	(22,502)	(25,840)
	452,514	**436,730**

	2016			2015		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impair-ment al-lowance	Net amount
Retail customers:						
Overdrafts	2,154	(291)	1,863	3,030	(690)	2,340
Credit cards	686	(72)	614	796	(90)	706
Private loans	10,279	(285)	9,994	7,823	(247)	7,576
Home improvement	120,914	(4,559)	116,355	118,321	(4,724)	113,597
Corporate customers:						
Overdrafts	44,529	(1,584)	42,945	44,696	(1,407)	43,289
Up to EUR 150 thousand	160,937	(11,036)	149,901	166,633	(12,982)	153,651
Above EUR 150 thousand	135,517	(4,675)	130,842	121,271	(5,700)	115,571
	475,016	**(22,502)**	**452,514**	**462,570**	**(25,840)**	**436,730**

The credit quality of loans and advances to customers which are neither past due nor impaired is presented below:

31 December 2016	**Private**	**Business**	**Total**
Neither past due nor impaired			
Significant existing borrowers	8,164	234,617	242,781
Significant new borrowers	6,612	45,288	51,900
Other borrowers (less than EUR 30 thousand)	114,823	30,575	145,398
	129,599	**310,480**	**440,079**

31 December 2015	**Private**	**Business**	**Total**
Neither past due nor impaired			
Significant existing borrowers	6,555	196,892	203,447
Significant new borrowers	3,943	53,145	57,088
Other borrowers (less than EUR 30 thousand)	112,039	46,826	158,865
	122,537	**296,863**	**419,400**

Significant borrowers refers to disbursement of loans of more than EUR 30 thousand.

The movements in the impairment allowances for loan losses at 31 December 2016 were as follows:

	2016			**2015**		
	Business	**Private**	**Total**	**Business**	**Private**	**Total**
At 1 January	18,543	7,297	25,840	27,516	3,798	31,314
Charge for the year	1,786	14	1,800	641	2,502	3,143
Unwinding of discount	(1,139)	(57)	(1,196)	(1,598)	(29)	(1,627)
Loans written-off	(3,559)	(383)	(3,942)	(7,209)	219	(6,990)
At 31 December	**15,631**	**6,871**	**22,502**	**19,350**	**7,297**	**25,840**

At 31 December 2016, the loan portfolio includes loans to employees of the Bank amounting to EUR 779 thousand (2015: EUR 1,830 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

	2016	**2015**
Shares in companies located in OECD countries	69	58
Debt securities	131,309	87,954
Total	**131,378**	**88,012**

15. Intangible assets

	Software
Cost	
At January 2015	5,610
Additions	635
Disposals	(4)
At 31 December 2015	**6,241**
Additions	421
Disposals	(155)
At 31 December 2016	**6,507**
Accumulated depreciation	
At 1 January 2015	4,801
Charge for the year	864
Disposals	(4)
At 31 December 2015	**5,661**
Charge for the year	846
Disposals	(152)
At 31 December 2016	**6,355**
Net carrying value	
At 31 December 2015	**580**
At 31 December 2016	**152**

16. Property and equipment

	Land	Buildings	Assets under construction	Furniture and fixtures	Electronic equipment	Leasehold improvements	Totali
Cost							
At 1 January 2015	**4,907**	**6,702**	**79**	**1,544**	**17,628**	**4,212**	**35,072**
Additions	-	-	1,473	111	3,828	-	5,412
Transfers	-	71	(820)	-	-	749	-
Disposals	-	(544)	-	(113)	(1,333)	(2,973)	(4,963)
At 31 December 2015	**4,907**	**6,229**	**732**	**1,542**	**20,123**	**1,988**	**35,521**
Additions	-	-	1,415	24	1,235		2,674
Transfers	-	38	(642)			604	-
Disposals	-	(29)	-	(1,004)	(5,384)	(124)	(6,541)
At 31 December 2016	**4,907**	**6,238**	**1,505**	**562**	**15,974**	**2,468**	**31,654**
Accumulated depreciation							
At 1 January 2015	**-**	**2,256**	**-**	**1,420**	**14,190**	**2,756**	**20,622**
Charge for the year	-	340	-	77	1,446	217	2,080
Transfers	-	-	-	40	(40)	-	-
Disposals	-	(237)	-	(112)	(790)	(2,139)	(3,278)
At 31 December 2015	**-**	**2,359**	**-**	**1,425**	**14,806**	**834**	**19,424**
Charge for the year	-	325	-	69	1,709	271	2,374
Transfers	-	(1)	-	-	1	-	-
Disposals	-	(14)	-	(1,000)	(5,384)	(122)	(6,520)
At 31 December 2016	**-**	**2,669**	**-**	**494**	**11,132**	**983**	**15,278**
Net carrying value							
At 31 December 2015	**4,907**	**3,870**	**732**	**117**	**5,317**	**1,154**	**16,097**
At 31 December 2016	**4,907**	**3,569**	**1,505**	**68**	**4,842**	**1,485**	**16,376**

17. Other financial assets

	2016	2015
Accrued account maintenance fees	256	329
Security deposits	593	574
Receivables from financial institutions	595	870
Receivables from clients (not related to lending)	3,384	127
Other assets	284	41
	5,112	**1,941**

Other financial assets are neither past due nor impaired and are classified in the standard category as defined by the Bank's credit risk rating. Receivables from clients are related to cash operations.

18. Other assets

	2016	2015
Prepaid expenses	205	180
Year-end clearance accounts	3,763	154
Inventories and advances	1,091	556
	5,059	**890**

19. Due to banks

	2016	2015
Current accounts	227	249
	227	**249**

20. Due to customers

	2016	2015
Current accounts	407,149	365,698
Savings accounts	195,233	209,041
Term deposits	76,206	101,135
Other customer accounts	10,255	2,183
	688,843	**678,057**

Balances due to customers (current accounts, savings and term deposits) include an amount of EUR 5,365 thousand (2015: EUR 5,925 thousand) that represents cash collateral obtained for loans, guarantees, letters of credit and payment orders on behalf of customers.
The published annual interest rates as at 31 December 2016 and 2015 were as follows:

	2016	2015
Saving accounts	0.05%	0.05%
Time deposits:		
- Six months	n/a	n/a
- One year	0.10%	0.05%
- Two years	0.10%	0.10%
- Three years	0.10%	0.50%
- Four years	0.10%	1.00%
- Five years	0.50%	1.50%

Current accounts do not generally bear interest.

21. Borrowings and subordinated debt

	2016	2015
Borrowed funds from European Investment Bank (EIB)	10,034	8,021
Subordinated debt from ProCredit Holding AG & Co. KGaA	7,645	7,647
	17,679	**15,668**

Based on an agreement with EIB signed in November 2013, the Bank received the final tranche EUR 2,000 thousand during 2016. As per the agreement, the purpose of these funds is to finance projects that are undertaken by small and medium-sized enterprises. These funds have maturities up to 7 years.

Subordinated debt of EUR 7,500 thousand (2015: 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 7,645 thousand (2015: EUR 7,647 thousand) at 31 December 2016, includes the principal and accrued interest.

Pursuant to the approval granted by the Central Bank of Kosovo, the subordinated debt was classified as Tier 2 capital and included in the regulatory capital of the Bank.

22. Other financial liabilities

	2016	2015
Accrued expenses	84	133
Suppliers payable	1,056	880
Due to related parties	167	159
Pension contribution payable to Kosovo Pension Fund	78	95
	1,385	**1,267**

23. Other liabilities

	2016	2015
Provision for untaken vacation	171	207
Provision for litigation cases	912	706
Provision for guarantees	260	278
Other	516	925
	1,859	**2,116**

24. Shareholder equity and reserves

Share capital At 31 December 2016 the authorised share capital comprised 12,269,242 ordinary shares (2015: 12,269,242), with a par value of EUR 5 each, while the shareholding structure was as follows:

	Number of shares	In EUR	%
ProCredit Holding	12,269,242	61,346,210	100
	12,269,242	**61,346,210**	**100**

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

Share premium

Share premium of EUR 4,204 thousand (2015: EUR 4,204 thousand) represents the excess of contribution received over the nominal value of shares issued.

Contingency reserve

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

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.

24. Shareholder equity and reserves (continued)

The movements in the fair value reserve are presented as follows:

	2016	2015
Balance at 1 January	(6)	(64)
Revaluation losses reserve for AFS investments	(602)	(1,993)
Revaluation gains reserve for AFS investments	856	2,057
Deferred taxes on revaluation reserve for AFS investments	(25)	(6)
Balance at 31 December	**223**	**(6)**

Dividends paid

Dividends of EUR 20,000 thousand in total or EUR1.63 per share (2015: EUR 20,000 thousand or EUR 1.63 per share) were approved in May and paid to the sole shareholder in June 2016.

25. Related party transactions

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

In the course of conducting its banking business, the Bank entered into various business transactions with related parties and the balances with the shareholder and affiliated entities at 31 December 2016 and 2015 are as follows:

	Relationship	2016	2015
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities	4,472	5,664
Financial assets due from other ProCredit banks	under	89	73
Financial assets due from Quipu GmbH	common	39	59
Other financial assets	control	17	48
		4,617	**5,844**
Liabilities due to:			
Due to other ProCredit banks	Entities	391	194
Financial liabilities to other ProCredit banks	under	133	159
Financial liabilities to Quipu GmbH	common	33	-
Due to Quipu GmbH	control	97	306
Due to ProCredit Holding AG & Co. KGaA	Parent	99	124
Subordinated debt from ProCredit Holding AG & Co. KGaA	company	7,645	7,647
		8,398	**8,430**

25. Related party transactions (continued)

As of 31 December 2016, the Bank had a standby line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2015: EUR 15,000 thousand), maturing on 11 March 2017 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

	Relationship	2016	2015
Interest income from:			
Interest income from ProCredit banks	Under	(7)	3
Other income from ProCredit group	common control	1	3
		(6)	6
Expenses:			
Parent: Interest expenses for subordinated debt	Parent	517	538
Parent: Other administrative expenses	Parent	1,217	1,007
Parent and academies: Training expenses	Parent	575	541
Parent: commitment fees	Parent	128	152
Quipu GmbH: IT services	Under	1,339	955
Quipu GmbH: Card processing fees	common control	1,271	1,250
		5,047	4,443

Key management remuneration:	2016	2015
Salaries	263	246
Short-term pension contributions (mandatory scheme)	13	12
Personal income tax	24	22
	300	**280**

26. Commitments and contingencies

	2016	2015
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	61,281	55,946
International guarantees	16,840	15,282
Local guarantees	9,712	12,812
Letters of credit	536	1,551
Less: Provisions recognised as liabilities	(260)	(278)
	88,109	**85,313**
Credit commitments		
Unused credit card facilities	3,909	4,190
Unused overdraft limits	38,818	43,715
Non-disbursed loans tranches	9,732	2,613
Unused portion of credit lines	8,822	5,428
	61,281	**55,946**

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 credit. 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 2016 except for those already provided for (Note 23).

26.Commitments and contingencies (continued)

Operating lease commitments

The Bank has entered into commercial property leases for its offices. As of 31 December 2016 and 2015, the Bank's future minimum non-cancellable lease commitments were EUR 231 thousand (2015: EUR 244 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.