ProCredit Bank

Kosovo

ANNUAL REPORT 2017

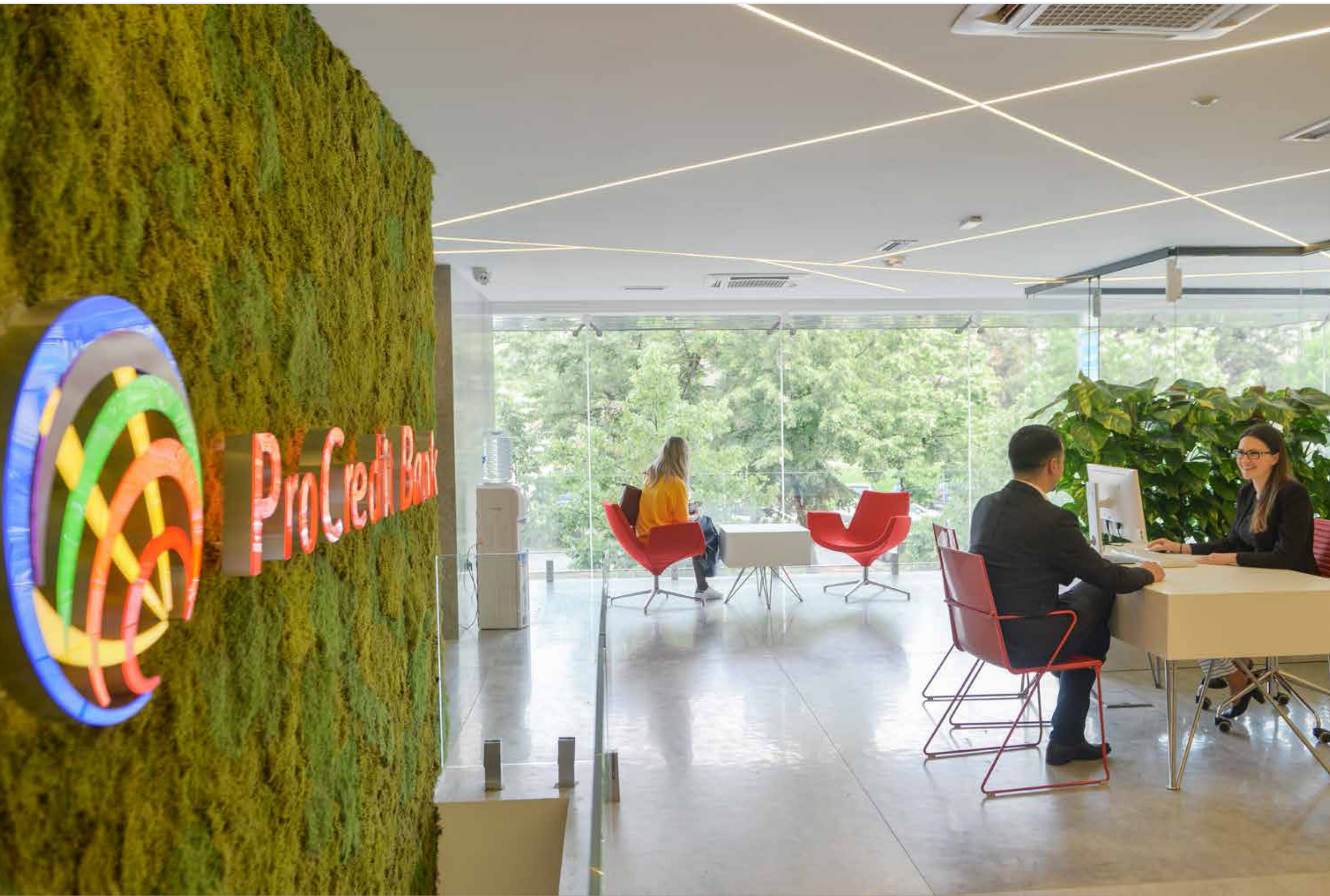
Content

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..


ProCredit Bank

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

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

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for very small, small and medium-sized businesses as well as the general population in their countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity, including banking operations, human resources and risk management. It ensures that ProCredit corporate values, international best practice procedures and Basel II risk management principles are implemented group-wide in line with standards also set by the German supervisory authorities.

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

ProCredit Holding is a public-private partnership. In addition to Zeitinger Invest GmbH and ProCredit Staff Invest, the 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 GAWA Microfinance Fund. The public shareholders of ProCredit Holding include KfW (the German promotional bank), IFC (the private sector arm of the World Bank), FMO (the Dutch development bank), BIO (the Belgian Investment Company for Developing Countries) and Proparco (the French Investment and Promotions company for Economic Cooperation).

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

Key Business segments

Business Clients

In order to promote general economic growth and create new jobs, the ProCredit Bank continues to provide and develop banking services aimed at small and medium enterprises, helping them to expand and operate as efficiently as possible. Our approach to managing our relationships with our business clients and the professionalism of our Business Client Advisers leads to a better understanding of our clients' needs, their business and their financial capacity, and enables us to provide appropriate financial services.

In addition to these financial services, we offer other banking services to meet our clients' needs. For example, last year we worked on developing and improving the services at our 24/7 Zones in order to provide innovative, fast, and secure banking channels. What makes these facilities unique is the high-tech equipment, which provides our clients with greater efficiency and flexibility, as they are not limited to visiting our branches during opening hours. In the 24/7 Zones, business clients can withdraw funds around the clock seven days a week, deposit daily turnover in cash-in ATMs, deposit larger amounts in the Bank's drop boxes, and deposit coins in special ATMs. In addition, the Bank has further enhanced the e-Banking platform with the latest technology to meet the needs of small and medium enterprises.

Furthermore, thanks to the Bank's efforts to provide high-quality electronic services and develop its banking infrastructure, 99% of banking transactions in 2017 were carried out through electronic means. This enabled our Business Client Advisers to focus more closely on identifying the needs of business clients and provide them with the most appropriate services.

In 2017, we continued to invest in the training and further development of our Business Client Advisers so that they can provide our clients with the best and most professional service. This is because the Bank considers its Business Client Advisers to be the key implementers of its strategy of developing long-term professional relationships with business clients.

The Bank also focused on stimulating and promoting investment loans for all small and medium enterprises, with a particular emphasis on manufacturing companies. In addition, the Bank continued to support businesses with a financial capacity exceeding EUR 30,000. The volume of business loans reached EUR 355.9 million by the end of the year.

As an institution that is committed to responsible banking practices, ProCredit places great importance on compliance with environmental standards. The Bank has continued to support its clients who have taken out "green" loans—a term which characterises all financial services related to investments in energy-saving measures, renewable energy sources, and other eco-friendly projects. In 2017, the objective was to encourage business clients to undertake such investments, with a particular focus on energy-saving investments in solar power, modernisation of production machinery, and measures designed to lower water or air pollution. The eco-loan portfolio for business clients stood at EUR 46.6 million, accounting for 13% of the total portfolio dedicated to financing these clients.

The Bank will continue to adjust and develop banking services for businesses in order to help them develop and achieve stability. In addition to supporting short- and medium-term business investments, in 2018 we will continue to focus on promoting long-term investments, especially those made by manufacturing businesses, and ecologically-friendly investments. We will also continue to provide high-quality services at our 24/7 Zones and develop the e-Banking platform in order to provide our clients with more efficient means of doing business. These elements, coupled with the specialised experience of business clients, constitute the foundation of our model of a successful business. This is in line with our aim of being a "Hausbank" for small and medium business clients, and establishing long-term cooperation with them.

Private Clients

Our continuous longstanding efforts and investments in advanced banking technology and the automation of processes have further eased the way in which private clients do banking with us. Due to these efforts to provide the most modern and efficient infrastructure, ProCredit Bank has succeeded in delivering very effective online banking platforms and automated services to our private clients.

Because the vast majority of services were already automated, in 2017 ProCredit concentrated on expanding access to the Bank's services via the online e-Banking platform. In combination with the financial education and advice that clients receive from ProCredit staff, this increased autonomy has offered immense opportunities for them to fulfil their own banking needs at the time and place that is most convenient for them.

ProCredit has continued to support the investment plans of its private clients, especially with regard to housing loans, so that private clients can purchase homes and build their family assets. At the end of 2017, the share of housing loans in the total portfolio had risen from 21% to 30%. The same accelerating trend is forecast for 2018. Due to the emphasis on housing loans, which are promoted in a very transparent and responsible way, ProCredit has positioned itself as a reliable partner in the financial market for all private clients with reasonable plans for property investments.

A responsible approach towards the environment, which has always been an important pillar of our way of banking, was maintained and furthered in 2017. ProCredit has been continuously promoting environmentally-friendly measures and financing private clients wishing to undertake projects which contribute to the protection of the environment and energy saving.

Deposits from Private Clients

ProCredit Bank's aim to promote a culture of saving through the provision of expert financial advice was advanced throughout 2017. Financial education delivered by our Client Advisers and regular meetings with clients clearly attest to the Bank's goal of promoting saving as a very important means to reach financial stability. The Bank's deposit portfolio was stable and well-diversified throughout 2017, with EUR 526,742 million of the deposits coming from private clients. ProCredit will continue to emphasise the importance of saving for all its private clients.

Direct Banking

In 2016 ProCredit Bank's 24/7 Zones were fully implemented, offering a wide range of services that were appreciated by clients. While the services offered at the 24/7 Zones reached very satisfactory levels of usage, in 2017 the chief objective was to implement a direct banking strategy to ease and expand the options for carrying out banking transactions. To this end ProCredit made active efforts to go beyond automated services by advancing online platforms to increase the efficiency of the way clients do their banking with us. The current e-Banking platform enables our clients to be fully in control of their finances; among other things, they can make domestic and international transfers at very attractive rates with high security by using our real-time SMS notification service, as well as make online payments quickly and easily. The new way of opening accounts via the ProCredit website is very efficient, simple and popular with new clients who wish to work with the Bank. The usage of the online services provided by ProCredit showed a positive trend throughout the entire year.

The wide range of possibilities offered via the online e-Banking platform was developed in parallel with an increasing role for the Bank's Contact Centre. Our Client Advisers at the Contact Centre do not merely engage in simple troubleshooting, but are well trained to advise our clients from long distances. In this way, our clients' needs are fulfilled not only by the possibility of making their transactions electronically, but also by receiving financial advisory services whenever they need them.

With its online platforms, 24/7 Zones and wide network of points of sale with advanced contactless technology, ProCredit's direct banking strategy offers clients a full package of banking services in a very advanced, secure and efficient way.

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 foureyes 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. During last year, the Bank advanced the loan portfolio supervising system towards identifying and managing potential issues at a very early stage. Furthermore, this system has integrated and adjusted to the requirements pertaining to the implementation of the International Financial Reporting Standard 9 (IFRS 9). Additionally, the Bank has continuously engaged in analyzing the market of various economic sectors.

Moreover, credit risk is mitigated by the fact that the bank's credit portfolio is highly diversified, and any potential concentration of credit risk is thoroughly 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.

During 2017, the key indicators of loan portfolio continued to have a positive trend, thereby reflecting the high-quality of bank's loan portfolio. The rate of non-performing loans as at the end of the year stood at 2.49 % which clearly below the average level of the financial sector in Kosovo.

ProCredit Bank Kosovo follows a conservative approach to loan loss provisioning. The tolerate for important individual exposures which show signs of impairment are assessed on an individual and regular basis. The rate of non-performing loan coverage to loan loss allowances (provisioning) stood at 202.87 % implying a high-level coverage.

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. 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 Managment 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.

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.

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.

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 applies international best practices in order to prevent the Bank's services from being used for money laundering or other illegal activities, such as terrorist financing. As a strong supporter of the fight against these crimes, our institution applies the Know Your Client principle and establishes banking relations only with clients it has duly verified and whose activities it is sure do not violate our ethical values and business model.

To make sure that ProCredit Bank fully complies with the requirements and obligations set forth under Kosovo banking industry legislation, regulations, and instructions, we have developed anti-money laundering policies and procedures. In addition to local policies, ProCredit Bank has implemented the Group Anti-money Laundering Policy and the Group Customer Due Diligence Standard, which meet the requirements of German and EU legislation. Moreover, ProCredit Bank applies the FATF recommendations on risk assessment, by analysing the risks posed by money laundering and taking adequate preventive measures. ProCredit also complies with EU Regulation 2015/847 in order to ensure transparency in all payment transactions.

In our bank, the authority vested with the responsibility to fight money laundering is the Anti-Money Laundering Unit, which oversees the implementation of legal requirements, group policies, and training related to this field. In addition to the employees in the AML Unit, the entire bank staff receives intensive training (both national and international) on the most recent updates in the field of combating money laundering and terrorist financing.

The Bank also uses sophisticated software which makes it possible to detect potentially suspicious transactions and to comply with international sanctions. The software (Siron® AML, Siron® PEP and Siron® Embargo) is manufactured by the German company Tonbeller.

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.

ProCredit Academies and Language Centres

Advanced training sessions are held at both ProCredit Academies in Fürth, Germany: the ProCredit Banker Academy (a 14 week programme), and the ProCredit Management Academy (a three-year part-time programme). In 2017, 22 employees were graduated from these academies: 15 from the ProCredit Banker Academy and seven from the ProCredit Management Academy. Currently, 32 other employees are attending studies at these Academies (15 at the Banker Academy and 17 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, 73 employees participated in English courses, 56 at the Veles Language Centre in Macedonia, and 17 at the Fürth Language Centre in Germany.

Specialised and other trainings

Other training opportunities that were held during 2017 included 30 types of various specialized training events and other local courses.

Above all, ProCredit Bank Kosovo invested nearly EUR 1 million in staff training and development in 2017, which translates into an annual average investment of about EUR 2,500 per employee. In addition, the average number of training days in Kosovo and abroad is 7,500; in 2017, each employee was provided on average with seven days of training.

ProCredit Entry Programme

Particular importance is given to supporting new employees who become part of our Bank. For this reason, ProCredit Bank designed ProCredit Entry Programme, which has been in place since 2011. By the end of 2017, 19 groups consisting of 204 candidates had successfully completed the programme.

The ProCredit Entry Programme, an international program delivered in English, gathers candidates from the countries of the region. The program lasts six months and provides candidates of various profiles with unique opportunities for comprehensive development and employment.

Building relationships

As in previous years, the 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, ProCredit Bank plays an important role through its contribution to the financial education efforts in the country.

Every year, nearly 100 students are offered one- to three-month internships at the bank in order to help them practice the knowledge obtained at the faculty so 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 2017

General Information

Board of Directors:

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

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CONTENT

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 the ProCredit Bank sh.a. (the "Bank") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2017;
- the statement of financial position as at 31 December 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of 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"). 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. 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.

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

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

Independent Auditor's Report (continued)

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.

30 April 2018
Prishtina, Kosovo

	Note	2017	2016
Interest income	8	34,801	39,116
Interest expenses	8	(1,185)	(1,803)
Net interest income		**33,616**	**37,313**
Provision for impairment of loans to customers	14		(1,800)
Net interest income after provision for impairment of loans		**33,616**	**35,513**
Fee and commission income	9	11,362	9,609
Fee and commission expenses	9	(5,444)	(4,943)
Gains less losses from trading and foreign exchange translation		482	385
Other operating income	10	3,967	1,216
Administrative and other operating expenses	11	(23,137)	(23,943)
Profit before tax		**20,846**	**17,837**
Income tax expense	12	(2,362)	(1,778)
Profit for the year		**18,484**	**16,059**
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	12	(35)	229
Total comprehensive income for the year		**18,449**	**16,288**

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 51.

	Note	31 December 2017	31 December 2016
Assets			
Cash and balances with Central Banks	13	112,490	121,264
Loans and advances to banks	14	63,986	67,004
Loans and advances to customers	15	482,641	452,514
Investment securities available for sale	16	106,179	131,378
Other financial assets	18	8,077	5,112
Current income tax prepayment	12	1,000	2,138
Other assets	20	4,147	5,059
Intangible assets	17	83	152
Property and equipment	18	16,303	16,376
Total assets		**794,906**	**800,997**
Liabilities			
Due to other banks	21	260	227
Due to customers	22	673,471	688,843
Other financial liabilities	23	1,218	1,385
Other liabilities	24	2,747	1,859
Deferred income tax liabilities	12	359	280
Borrowings	25	10,034	10,034
Subordinated debt	25	7,644	7,645
Total liabilities		**695,733**	**710,273**
Equity			
Share capital	26	61,346	61,346
Share premium	26	4,204	4,204
Contingency reserve	26	511	511
Revaluation reserve for securities available for sale	26	188	223
Retained earnings		32,924	24,440
Total equity		**99,173**	**90,724**
Total liabilities and equity		**794,906**	**800,997**

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 51.

These financial statements have been approved by the Management Board on 20 April 2018 and signed on their behalf by:

Ilir Aliu
Chief Executive Officer

Yll Dushi
Head of Finance Department

	Notes	2017	2016
Cash flows from operating activities			
Profit before tax		20,846	17,837
Adjustments for:			
Depreciation	17	2,386	2,374
Amortization	16	452	846
Gains on disposal of property and equipment		(267)	(143)
Impairment losses	14	-	1,800
Interest income	8	(34,801)	(39,116)
Interest expense	8	1,185	1,803
Cash flows used in operating activities before changes in operating assets		**(10,200)**	**(14,599)**
Net (increase)/decrease in:			
Due from other banks		(8,658)	(3,667)
Loans and advances to customers		(30,438)	(17,997)
Other assets		911	(4,169)
Other financial assets		(2,967)	(3,171)
Balances with the Central Bank		(3,117)	(12,932)
Net increase/(decrease) in:			
Due to other banks		33	(22)
Due to customers		(14,174)	12,361
Other liabilities		888	(257)
Other financial liabilities		(168)	118
		(67,887)	**(44,338)**
Interest received		36,010	38,869
Interest paid		(2,384)	(3,368)
Income tax paid		(1,141)	(2,766)
Net cash used in operating activities		**(35,403)**	**(11,600)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(47,847)	(86,712)
Proceeds from disposal of investment securities available for sale		72,110	44,262
Acquisition of premises and equipment	17	(3,276)	(2,674)
Proceeds from disposal of premises and equipment		1,231	163
Acquisition of intangible assets	16	(383)	(421)
Net cash from/(used in) investing activities		**21,835**	**(45,382)**
Cash flow from financing activities			
Proceeds from long term borrowings		-	2,000
Dividends paid	24	(10,000)	(20,000)
Net cash used in financing activities		**(10,000)**	**(18,000)**
Net decrease in cash and cash equivalents		(23,568)	(74,982)
Cash and cash equivalents at the beginning of the year		**147,000**	**221,982**
Cash and cash equivalents at the end of the year	12	**123,432**	**147,000**

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 51.

	Share capital	Share premium	Contin-gency reserve	Retained earnings	Fair value reserve	Total
At 1 January 2016	**61,346**	**4,204**	**511**	**28,381**	**(6)**	**94,436**
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**
Total comprehensive income						
Profit for the year	-	-	-	18,484	-	18,484
Other comprehensive income	-	-	-	-	(35)	(35)
Total comprehensive income				**18,484**	**(35)**	**18,449**
Dividends paid	-	-	-	(10,000)	-	**(10,000)**
Balance at 31 December 2017	**61,346**	**4,204**	**511**	**32,924**	**188**	**99,173**

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 51.

1. Introduction

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

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

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

Registered address and place of business
The Bank's registered address is Str. "George Bush", No 26, 10000 Prishtina, Republic of Kosovo. During 2017, apart from offering online services via e-Banking platform and website service, the Bank operated with branches, service points, Contact Centre and 24/7 (self-service) Zones, in order to provide customers with comprehensive and more accessible services.

Board of Directors:

- Mr. Borislav Kostadinov, Chairperson
- Mr. Marcel Zeitinger, 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
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, currency of the primary economic environment in which the entity operates. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

(b) Interest
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.

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.

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. All other fees, which are integral part of effective interest rate calculation are presented in interest income

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

(d) Operating leases

Leases in which the Bank is a lessee and a significant portion of the risks and rewards of ownership are retained by the lessor are classified as 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 recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

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

- loans and receivables; and
- available for sale.

See (i) and (j).

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

(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 realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortised cost measurement
Amortized 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.

(vi) Fair value measurement (continued)
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.

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
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 3 months and 12 months; in exceptional cases, longer periods are warranted.

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the past-due status, 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 it operates.

	Allowance Level 2017	Allowance Level 2016
arrears 0 – 30 days	2.20%	2.05%
arrears 31 – 90 days	55%	55%
arrears › 91 days	80%	80%
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 amortized 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 lives. The annual depreciation rates are determined by the estimated useful lives of certain assets as presented below:

Description	Useful life 2017	Useful life 2016
Buildings	40 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	3-5 years	3-5years
Other fixed assets	2-7 years	2-7 years

Property and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 50 (2016: EUR 50) and, are also not material in aggregate, are expensed in profit or loss.

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

(l) Intangible assets

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

(m) Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at the lower value between cost when acquired, the value granted from the auction, and fair value less cost to sell. The Bank typically obtains repossessed assets at the third auction with a value of 1/3 of the valuation provided by the independent valuation specialists. Repossessed collateral are included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

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

(n) Due from other banks

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

(o) Deposits and subordinated liabilities

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

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

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

(p) Provisions

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

(q) Employee benefits

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

(r) Financial guarantees and loan commitments

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

(s) Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

3. New standards, amendments and interpretations not yet adopted

Adoption of new or revised standards and interpretations

The following amended standards became effective for the Bank from 1 January 2017, but did not have any material impact on the Bank:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 15.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on

8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

4. 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 election 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.
- 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. 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.

The bank assessed the impact of transition to IFRS9 and the approximate values are presented in the table below.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories, based on an initial approximate assessment, upon transition to IFRS 9 on 1 January 2018:

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL	Other	Manda-tory	Volun-tary	
Cash and central bank balances	L&R	AC	**112,490**	(139)		-	-	**112,351**
Loans and advances to banks	L&R	AC	**61,527**	(6)		-	-	**61,521**
Investments in debt securities	AFS	FVOCI	**106,104**	(70)		-	-	**106,034**
Loans and advances to customers	L&R	AC	**482,640**	(2,259)		-	-	**480,381**
Other financial assets	L&R	AC	**11,778**	(183)		-	-	**11,595**
Total financial assets			774,539	(2,657)		-	-	771,882
Provision impairment losses								
for off-balance sheet items	L&R	AC	**320**	**733**		**-**	**-**	**1,053**
Total financial liabilities		320	**733**			-	-	**1,053**

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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. The new standard is not expected to have a material impact on the Bank's financial statements.

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 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.

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.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The new standard is not expected to have a material impact on the Bank's financial statements.

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). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The new standard is not expected to have a material impact on the Bank's financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The new standard is not expected to have a material impact on the Bank's 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 temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 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) will have a minor impact on the financial statements. The interpretation is 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.

There are no requirements or regulation imposed from Central Bank of Kosovo or other regulators related with the presentation of applicable financial reporting framework.

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on collective loans and advances by EUR 1,696 thousand (2016: EUR 1,646 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 933 thousand (2016: EUR 946 thousand), respectively.

(ii) Repossessed assets
The Bank measures repossessed assets at the lower of cost (auction value) and net realizable value. The fair value measurement includes the use of independent appraiser's valuation reports. The values are subsequently reviewed by the Bank's Management for significant unobservable inputs and any required write down adjustments. Currently, due to the specifics of real estate market in Kosovo and legalization issues, the frequency of transactions is low. In management's assessment there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value for the Bank's repossessed collateral. Management has reviewed the appraisers' assumptions underlying the methods used in the

valuation reports and confirms that comparable information used, legal status of the properties and assumptions made are appropriately determined considering the market conditions at the end of the reporting period. Notwithstanding the above, management considers that the valuation of its repossessed collateral is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value. Haircuts management uses to reflect the costs to sell of the property cover uncertainty related to legal status, timing when repossessed collateral will be sold and other market limitations. An increase in existing haircuts with 10% would result in an increase in provisions for repossessed properties of EUR 191 thousand at the reporting date.

6. Financial risk management

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

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

Risk management is carried out primarily by the Risk Monitoring Function and Credit Risk Department that work under the risk management policies approved by the Board of Directors. The

Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(a) Credit risk

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

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

(i) Analysis of credit quality

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

The table represents a worst case scenario of credit risk exposure of the Bank at 31 December 2017 and 2016, without taking into account any collateral held or other credit enhancements attached. For financial assets, the exposures set out below represent the net carrying amounts as reported in the statement of financial position.

Maximum exposure to credit risk	31 December 2017		31 December 2016	
	Carrying amount	**Amount committed/ guaranteed**	**Carrying amount**	**Amount committed/ guaranteed**
Balances with Central Banks and Treasury				
Bills with maturities of less than 3 months	63,419	-	65,280	-
Loans and advances to banks	63,986	-	67,004	-
Loans and advances to customers	482,641	-	452,514	-
Available-for-sale financial assets	106,179	-	131,378	-
Other financial assets	8,078	-	5,112	-
Lending commitments and guarantees	-	95,130	-	88,368
Total	**724,303**	**95,130**	**721,288**	**88,368**

Off balance sheet	31.Dec.17	31.Dec.16
Credit commitments	62,239	61,280
Financial guarantees	31,004	26,552
Letters of Credit	1,887	536
	95,130	**88,368**
Provisions recognised as liabilities	(320)	(260)
Total	**94,810**	**88,108**

Cash and balances with central banks.

Cash and current account with banks are neither past due nor impaired and are not collateralised. The credit quality of cash and balances with central banks is provided below. Kosovo Central Bank and Kosovo Government are not provided with a rating by recognised rating agencies. However, public debt is at levels below 20% of GDP and there is no history of defaults with regard to the instruments issued by the Government through the Central Bank or the Central bank itself.

In thousands of Euro	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
31 December 2017				
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		7,010	-	7,010
- Mandatory reserve		40,727	-	40,727
- Government securities		-	6,200	6,200
Central Bank of the Republic of Germany (Deutche Bundesbank)	AAA	15,682	-	15,682
Total cash and cash equivalents, excluding cash on hand		**63,419**	**6,200**	**69,619**

In thousands of Euro	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 (Deutche Bundesbank)	AAA	17,361	-	17,361
Total cash and cash equivalents, excluding cash on hand		**62,280**	**3,000**	**65,280**

Due from banks

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

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

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

	31 December 2017	31 December 2016
Neither past due nor impaired		
- AA+ to AA- rating	26,608	33,636
- A+ to A- rating	21,048	14,085
- BBB+ to B- rating	16,330	19,283
Total due from other banks	**63,986**	**67,004**

Loans and advances to customers

31 December 2017	Private	Business	Total
Total gross amount	142,664	362,905	505,569
Allowance for impairment (individual and collective)	(7,973)	(14,955)	(22,928)
Net carrying amount	**134,691**	**347,950**	**482,641**
At amortised cost			
Neither past due nor impaired	132,076	336,384	468,460
Past due but not impaired	5,690	11,675	17,365
Impaired	4,898	14,846	19,744
Total gross amount	**142,664**	**362,905**	**505,569**
Allowance for impairment (individual and collective)	(7,973)	(14,955)	(22,928)
Net carrying amount	**134,691**	**347,950**	**482,641**
Loans with renegotiated terms			
Carrying amount	3,151	16,899	20,050
Out of which: Impaired	1,463	9,777	11,240
Allowance for impairment	(1,493)	(4,756)	(6,249)
Net carrying amount	**1,658**	**12,143**	**13,801**
Past due but not impaired			
Past due 0 – 30 days	3,723	9,999	13,722
Past due 31 – 90 days	1,115	1,197	2,312
Past due 91 – 180 days	851	480	1,331
	5,689	**11,676**	**17,365**
Impaired			
Past due 0 – 30 days	618	8,963	9,581
Past due 31 – 90 days	198	1,137	1,335
Past due 91 – 180 days	209	544	753
Past due over 180 days	3,873	4,202	8,075
	4,898	**14,846**	**19,744**
Allowance for impairment			
Individual	(682)	(5,287)	(5,969)
Collective	(7,291)	(9,668)	(16,959)
Total allowance for impairment	**(7,973)**	**(14,955)**	**(22,928)**

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
Out 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	(269)	(5,771)	(6,040)
Collective	(7,642)	(8,820)	(16,461)
Total allowance for impairment	**(7,911)**	**(14,591)**	**(22,502)**

Impairment and provisioning

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

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 for which the Bank determines that are not impaired and 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 those loans, where 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 as 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 that could be achieved through a legal recovery process;
- the new payment plan is in line with the actual and expected future payment capacity of the borrower; 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 categorized or not in a better category based on the performance of the exposure. Impaired restructured loans remain in the same category, independent of the performance after the restructuring.

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

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.

The table below presents the entire portfolio, which includes non-rated Kosovo Government securities. However, public debt is at levels below 20% of GDP and there is no history of defaults with regard to the instruments issued by the Government through the Central Bank or the Central bank itself.

31 December 2017	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	70,547	70,547
- AA+ rated	-	12,397	12,397
- Unrated (at Government or Country level)	23,160	75	23,235
Total debt securities available for sale	**23,160**	**83,019**	**106,179**

31 December 2016	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	81,460	81,460
- AA+ rated	-	25,316	25,316
- Unrated (at Government or Country level)	24,533	69	24,602
Total debt securities available for sale	**24,533**	**106,845**	**131,378**

Lending commitments and financial guarantees

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

(ii) Risk limit control and mitigation policies

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

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

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

Collateral held and other credit enhancements, and their financial effect

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

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

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

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

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

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

	Over collateralised		Under collateralised	
At 31 December 2017	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Business	196,092	607,710	151,858	122,960
Private	35,576	121,248	99,114	21,832
	231,668	**728,958**	**250,972**	**144,792**

	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**

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 2017 and 2016. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	2017			2016		
	OECD countries	Kosovo	Total	OECD countries	Kosovo	Total
Assets						
Balances with Central Banks	15,682	47,737	63,419	17,361	47,919	65,280
Loans and advances to banks	63,986	-	63,986	67,004	-	67,004
Loans and advances to customers	-	482,641	482,641	-	452,514	452,514
Available-for-sale financial assets	83,019	23,160	106,179	106,845	24,533	131,378
Other financial assets	-	8,078	8,078	-	5,112	5,112
	162,687	**561,616**	**724,303**	**191,210**	**530,078**	**721,288**
Liabilities						
Due to other banks	99	161	260	99	128	227
Due to customers	48,656	624,815	673,471	42,699	646,144	688,843
Borrowings	10,034	0	10,034	10,034	-	10,034
Subordinated debt	7,644	0	7,644	7,645	-	7,645
Other financial liabilities	0	1,218	1,218	-	1,385	1,385
	66,433	**626,194**	**692,627**	**60,477**	**647,657**	**708,134**

Industry

	2017			2016		
	Private	Business	Total	Private	Business	Total
Assets						
Balances with Central Banks	-	63,419	63,419	-	65,280	65,280
Loans and advances to banks	-	63,986	63,986	-	67,004	67,004
Loans and advances to customers	134,691	347,950	482,641	131,914	320,600	452,514
Available-for-sale financial assets	-	106,179	106,179	-	131,378	131,378
Other financial assets	-	8,078	8,078	-	5,112	5,112
Total assets	**134,691**	**589,612**	**724, 303**	**128,826**	**592,462**	**721,288**
Liabilities						
Due to other banks	-	260	260	-	227	227
Due to customers	512,051	161,420	673,471	545,081	143,762	688,843
Borrowings	-	10,034	10,034	-	10,034	10,034
Subordinated debt	-	7,644	7,644	-	7,645	7,645
Other financial liabilities	-	1,218	1,218	-	1,385	1,385
Total liabilities	**512,051**	**180,743**	**692,627**	**545,081**	**163,053**	**708,134**

(b) Market risk

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

(i) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank 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 Monitoring Function. In addition regulatory limits are at all times adhered to by the Bank.

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

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

Even though the bank aims to keep its currency position as close as possible to zero, there may be occasions where the bank is still affected by unpredicted volatility of exchange rates. Therefore, the Risk Monitoring Function performs stress tests and reports the effects in P&L of the bank on 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 2017	31 December 2016
1 USD	0.8338	0.9487
1 CHF	0.8546	0.9312
1 GBP	1.1271	1.1680

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2017 and 2017 as translated into EUR '000.

31 December 2017	EUR	USD	CHF	GBP	Total
Assets					
Balances with Central Banks	111,638	89	758	5	112,490
Loans and advances to banks	49,303	14,305	334	44	63,986
Loans and advances to customers	482,169	472	-	-	482,641
Available-for-sale financial assets	91,147	15,032	-	-	106,179
Other financial assets	7,545	533	-	-	8,078
Total monetary financial assets	**741,802**	**30,431**	**1,092**	**49**	**773,374**
Liabilities					
Due to banks	259	-	1	-	260
Due to customers	642,005	30,331	1,072	63	673,471
Borrowings and subordinated debt	17,678	-	-	-	17,678
Other financial liabilities	1,207	-	-	11	1,218
Total monetary financial liabilities	**661,149**	**30,331**	**1,073**	**74**	**692,627**
Net on-balance sheet financial position	**80,653**	**100**	**19**	**(25)**	**80,747**
Credit commitments	62,154	85	-	-	62,239
Off balance sheet - letters of credit	1,838	49	-	-	1,887
Off balance sheet - bank guarantees	30,431	573	-	-	31,004
Total credit related commitments	**94,423**	**707**	**-**	**-**	**95,130**

31 December 2016	EUR	USD	CHF	GBP	Total
Assets					
Balances with 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**

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 2017	Increase 2016	31 December 2017	31 December 2016
USD	10%	10%	2	32
Other	10%	10%	5	3

(ii) Interest rate risk

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

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

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

EUR interest Sensitivity Gap At 31 December 2017		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		-	-	-	-	-	-	-	48,982
Balances with Central Banks		22,692	-	-	-	-	-	22,692	40,727
Current accounts with banks		7,271	-	-	-	-	-	7,271	202
T-bills and marketable securities	Fixed	7,000	16,000	17,850	3,800	10,400	100	55,150	1,527
	Variable	15,000	19,000	-	-	-	-	34,000	470
Term deposits with banks		17,940	19,348	1,411	2,850	-	-	41,549	659
Loans and advances to customers	Fixed	27,820	90,413	107,098	95,590	108,926	16,772	446,619	1,690
	Variable	33,861	-	-	-	-	-	33,861	-
Other financial assets		-	-	-	-	-	-	-	7,545
Total assets		**131,584**	**144,761**	**126,359**	**102,240**	**119,326**	**16,872**	**641,142**	**101,802**
Liabilities									
Current accounts from banks		-	-	-	-	-	-	-	260
Current accounts from customers		23,748	15,832	18,999	37,997	61,745	-	158,321	425,431
Deposits from customers		4,824	15,371	23,403	5,088	9,279	39	58,004	1,384
Borrowings and subordinated debt	Fixed	-	-	-	-	8,000	2,000	10,000	34
	Variable	-	7,500	-	-	-	-	7,500	144
Other financial liabilities		-	-	-	-	-	-	-	1,218
Total liabilities		**28,572**	**38,703**	**42,402**	**43,085**	**79,024**	**2,039**	**233,825**	**428,471**
IR sensitivity gap- open position		**103,011**	**106,058**	**83,957**	**59,155**	**40,302**	**14,833**	**407,316**	**n/a**

EUR interest Sensitivity Gap At 31 December 2016		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		-	-	-	-	-	-	-	55,665
Balances with Central Banks		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**

USD interest Sensitivity Gap At 31 December 2017		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		-	-	-	-	-	-	89
Current accounts with banks		2,585	-	-	-	-	2,585	-
T-bills and marketable securities	Fixed	-	10,006	5,003	-	-	15,009	23
Term deposits with banks		6,671	5,003	-	-	-	11,673	47
Loans and advances to customers	Fixed	86	385	-	-	-	472	-
Other financial assets		-	-	-	-	-	-	533
Total assets		**9,342**	**15,394**	**5,003**	**-**	**-**	**29,739**	**692**
Current accounts from customers		1,182	788	945	1,891	3,073	7,879	22,278
Deposits from customers		2	72	100	-	-	174	-
Other financial liabilities		-	-	-	-	-	-	-
Total liabilities		**1,183**	**860**	**1,045**	**1,891**	**3,073**	**8,053**	**22,278**
IR sensitivity gap- open position		**8,159**	**14,534**	**3,958**	**(1,891)**	**(3,073)**	**21,687**	**n/a**

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**

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering EUR and USD denominated asset and liability structures as at 31

December 2017 and 2016, and assuming a parallel shift of interest rate for +/-50bp in rate sensitive assets and liabilities, the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

Increase on interest rates of 0.5% Assets and Liabilities in:	Interest earning decline over the next 3 months		Interest earning decline over the next 1 year		Economic Value impact	
	2017	2016	2017	2016	2017	2016
EUR	128	123	987	949	(2,007)	(1,153)
USD	14	10	104	58	(19)	(20)

(c) Liquidity risk

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

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

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

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

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

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

As at 31 December 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	49,071	-	-	-	-	49,071
Reserves with the Central Bank	40,727	-	-	-	-	40,727
Current accounts with Central Banks	22,692	-	-	-	-	22,692
Current accounts with banks	10,059	-	-	-	-	10,059
Unused credit commitments	-	-	-	-	-	-
T-bills and marketable securities	7,326	15,598	10,460	23,535	49,769	106,688
Assets 1-S						
Term deposits with banks	24,627	16,999	7,350	2,811	2,685	54,472
Loans and advances to customers	28,547	41,146	61,577	114,492	304,462	550,224
Total Assets	**183,049**	**73,743**	**79,387**	**140,838**	**356,916**	**833,933**
Contractual Liabilities						
Liabilities 1						
Due to banks (due daily)	582	-	-	-	-	582
Due to customers (due daily)	603,697	-	-	-	-	603,697
Contingent liabilities from guarantees	32,891	-	-	-	-	32,891
Unused credit commitments	62,839	-	-	-	-	62,839
Liabilities 1-S						
Due to customers	5,233	7,051	10,738	26,077	20,721	69,820
Borrowings and subordinated debt	-	263	-	397	21,673	22,333
Total Contractual Liabilities	**705,242**	**7,314**	**10,738**	**26,474**	**42,394**	**792,162**
Periodic Contractual Liquidity Gap	**(522,193)**	**66,429**	**68,649**	**114,364**	**314,522**	**41,771**
Cumulative Contractual Liquidity Gap	**(522,193)**	**(455,764)**	**(387,115)**	**(272,751)**	**41,771**	**-**
Expected Liabilities						
Liabilities 1						
Due to banks (due daily)	291					291
Due to customers (due daily)	42,198	13,233	19,561	34,874	493,831	603,697
Contingent liabilities from guarantees	1,645	-	-	-	-	1,645
Unused credit commitments	6,284	-	-	-	-	6,284
Liabilities 1-S						
Due to customers	5,233	7,051	10,738	26,077	20,721	69,820
Borrowings and subordinated debt	-	263	-	397	21,673	22,333
Total Expected Liabilities	**55,651**	**20,547**	**30,299**	**61,348**	**536,225**	**704,070**
Periodic Expected Liquidity Gap	**127,398**	**53,196**	**49,088**	**79,490**	**(179,309)**	**129,863**
Cumulative Expected Liquidity Gap	**127,398**	**180,594**	**229,682**	**309,172**	**129,863**	**-**

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 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**	**-**

For liquidity purposes the Bank classifies demand and saving deposits as due on demand and maturing within one month. As a result, the contractual liquidity gap of up to twelve months is increased. However, the possibility that large amounts of customer deposits will leave the Bank is very unlikely. Therefore the Bank does not consider having the liquidity gap in short term. It rather focuses on expected maturity gap which represents a more likely scenario. The Bank is maintaining a portfolio of highly marketable financial assets (available for sale financial assets) that can easily be liquidated as protection against any unforeseen interruption to cash flow. The management of the Bank is monitoring liquidity ratios against internal and regulatory requirements on a daily, weekly and monthly basis. As a result, Management believes that the Bank has no short term liquidity gap. During 2017, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in the Bank's Risk Management Committee and ALCO. The stress test is performed applying three different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Function see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

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

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

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

The CBK requires the Bank to hold the minimum level of the regulatory capital of EUR 7,000 thousand, to maintain a ratio of Tier I capital to the risk-weighted assets (the 'Basel ratio') at or above the minimum of 8% (Actual 2017: 15.96%), and to maintain a total regulatory capital, Tier II, to risk-weighted assets at or above the minimum 12% (Actual 2017 18.40%). Therefore, based on the respective ratios, the bank was in compliance with the capital adequacy requirements as at the reporting dates, at 31 December 2017 and 2016.

As at 31 December 2017 and 2016 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2017	**2016**
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	511	511
Retained earnings[1]	30,602	22,109
less: Intangible assets	(83)	(152)
less: Credits to bank related persons	(3,835)	(4,538)
less: Deferred tax assets	-	-
Total qualifying Tier 1 capital	**92,746**	**83,480**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	6,624	6,235
Total qualifying Tier 2 capital	**14,124**	**13,735**
Total regulatory capital	**106,870**	**97,215**
Risk-weighted assets:		
On-balance sheet	509,878	479,883
Off-balance sheet	20,024	18,900
Risk assets for operational risk	51,062	56,106
Total risk-weighted assets	**580,964**	**554,889**
Tier I capital adequacy ratio	**15.96%**	**15,04%**
Tier II capital adequacy ratio	**18.40%**	**17,52%**

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

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 95% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock for EUR/USD (2 percentage points, Basel interest rate shock) and higher (historical) shock levels for other currencies.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.
- The Bank showed a modest level of utilization of its RAtCR as of 31 December 2017. Counterparty and market risk limit utilization are again low, reflecting the risk-averse management approach which guides the Bank's treasury operations. The economic capital required to cover operational risk is calculated according to the Basel II standard approach. Data collected during 2017 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.

7. Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

a. Valuation models

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

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models.

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

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

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

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

b. Financial instruments measured at fair value

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

Available for sale financial assets (debt)	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
31 December 2017	**106,104**	**82,944**	**23,160**	**-**
Bonds	91,954	82,944	9,010	-
Treasury bills	14,150	-	14,150	-
31 December 2016	**131,309**	**106,777**	**24,532**	**-**
Bonds	114,896	106,777	8,119	-
Treasury bills	16,413	-	16,413	-

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

	31 December 2017			31 December 2016		
	Carrying value	Fair value Level 2	Fair value Level 3	Carrying value	Fair value Level 2	Fair value Level 3
Financial Assets						
Loans and receivables						
Cash and balances with Central Banks	**112,490**	**112,490**	**-**	**121,264**	**121,264**	**-**
Loans and advances to banks	**63,986**	**63,986**	**-**	**67,004**	**67,004**	**-**
Current accounts	17,007	17,007	-	33,016	33,016	-
Time deposits with banks	46,979	46,979	-	33,988	33,988	-
Loans and advances to customers	**482,641**	**-**	**466,359**	**452,514**	**-**	**441,295**
Fixed loans	333,806	-	317,357	327,322	-	315,972
Agricultural loans	16,565	-	16,190	29,732	-	29,344
Business loans	224,570	-	213,752	201,614	-	194,734
Private loans	7,638	-	7,356	9,523	-	9,144
Housing loans	85,033	-	80,059	86,453	-	82,750
Other loans	148,835	-	149,002	125,192	-	125,323
Other financial assets	**8,078**	8,078	-	**5,112**	5,112	-
Financial Liabilities						
Due to banks	**260**	260	-	**227**	227	-
Customers' deposits	**673,471**	**614,290**	**58,991**	**688,843**	**612,638**	**75,957**
Current accounts	440,842	440,842	-	407,149	407,149	-
Saving accounts	166,103	166,103	-	195,234	195,234	-
Term deposits	59,181	0	58,991	76,205	-	75,957
Other customer accounts	7,345	7,345		10,255	10,255	-
Borrowings and subordinated debt	**17,678**	**-**	**17,678**	**17,679**	**-**	**17,452**
Borrowings	10,034	-	10,034	10,034	-	9,807
Subordinated debts	7,644	-	7,644	7,645	-	7,645
Other financial liabilities	**1,218**	1,218	-	**1,385**	1,385	-

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

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

8. Net interest income

	2017	2016
Interest income		
Loans and advances to customers	34,656	39,160
Loans and advances to banks	36	284
Available-for-sale financial assets	64	(460)
Other	45	132
Total interest income	**34,801**	**39,116**
Interest expense		
Due to customers	536	1,021
Borrowed funds	649	654
Other	-	128
Total interest expense	**1,185**	**1,803**
Net interest income	**33,616**	**37,313**

Interest income from loans and advances to customers for the year ended 31 December 2017 includes EUR 418 thousand (2016: EUR469 thousand) and EUR 875 thousand (2016: EUR 1,194 thousand) related to accrued interest and unwinding of the discount of impaired loans and advances to customers.

9. Net fee and commission income

	2017	2016
Fee and commission income		
Payment transfers and transactions	4,044	4,075
Debit and credit cards	3,785	2,755
Account maintenance fees	2,260	1,321
Letters of credit and guarantees	690	732
Other fees and commissions	583	726
Total fee and commission income	**11,362**	**9,609**
Fee and commission expense		
IT provider and related services	1,257	1,281
Fees and commissions on bank accounts	610	606
Other fees to banks	1,149	860
Fees and expenses related to cards	679	602
Third-party transaction fees	1,429	1,322
Other fees	320	272
Total fee and commission expense	**5,444**	**4,943**
Net fee and commission income	**5,918**	**4,666**

10. Other operating income

Other operating income for the year ended 31 December 2017 includes EUR 3,967 thousand (2016: EUR 1,216 thousand) related to income from reversal of impairment of repossessed collateral EUR 2,842 thousand (2016: EUR nil) and other income from litigation expense and disposal of property, plant and equipment.

11. Administrative and other operating expenses

	2017	2016
Personnel expenses (see below)	6,985	7,426
Depreciation and amortisation (see notes 15 and 16)	2,837	3,221
Other expenses	2,481	2,281
Maintenance and repairs	1,686	1,785
Rental expenses	1,412	1,826
Consulting and legal fees	1,106	1,537
Deposit insurance fund	1,086	1,116
Expenses for ProCredit Holding and Academies	965	735
Training costs	893	831
Security services	599	505
Royalties on software	571	399
Communication (telephone, on-line connection)	510	460
Advertising and promotion costs	484	529
Utilities	474	509
Disposal for property and equipment	445	206
Office supplies	316	257
Transport (fuel, maintenance)	186	200
Provision for guarantees given	101	120
	23,137	**23,943**

At 31 December 2017 the Bank had 393 employees (2016: 465 employees).

	2017	2016
Wages and salaries	6,073	6,618
Pension contribution	308	335
Fringe benefits	146	111
Other compensations	458	362
	6,985	**7,426**

12. Income taxes

Amounts recognised in profit or loss

	2017	2016
Current tax expenses	2,279	980
Deferred tax income	83	798
Income tax expense	**2,362**	**1,778**

Current income tax is calculated based on the income tax regulations applicable in Kosovo, using tax rates enacted at the reporting date. The tax rate on corporate income is 10% (2016: 10%).

Amounts recognised in Other Comprehensive Income ('OCI')

	2017			2016		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Available-for-sale investments	(38)	3	(35)	254	(25)	229
Total (see Note 24)	**(38)**	**3**	**(35)**	**254**	**(25)**	**229**

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2016: 10%) to current income tax expense:

	2017	2016
Profit before tax	20,846	17,837
Tax using the corporate tax rate	2,085	1,784
Exempt income	(123)	(144)
Non-deductible expenses	400	138
	2,362	**1,778**

Prepaid income tax as at 31 December 2017 was EUR 1,001 thousand (31 December 2016: EUR 2,139 thousand).

Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2016: 10%).

	2017	Profit or loss	OCI	2017	Profit or loss	OCI	2016
Deferred tax assets							
Accrued interest from loans	-	-	-	-	-	-	-
Available-for-sale investments	-	-	-	-	-	(1)	2
Accrued interest from deposits	24	(28)	-	52	(47)	-	99
Depreciation for property and equipment	-	-	-	-	(17)	-	17
Provisions for loan impairment	-	-	-	-	(496)	-	496
	24	**(28)**	**-**	**52**	**(560)**	**(1)**	**614**
Deferred tax liabilities							
Accrued interest from loans	(39)	7	-	(46)	24	-	(70)
Available-for-sale investments	(21)	-	4	(25)	-	(25)	-
Accrued interest from deposits	-	-	-	-	-	-	-
Depreciation for property and equipment	(103)	(54)	-	(49)	(49)	-	-
Provisions for loan impairment	(220)	(8)	-	(212)	(212)	-	-
	(383)	**(55)**	**4**	**(332)**	**(237)**	**(25)**	**(70)**
Net deferred tax assets/(liabilities)	**(359)**	**(83)**	**4**	**(280)**	**(797)**	**(26)**	**544**

13. Cash and balances with Central Banks

	2017	2016
Cash on hand	49,071	55,984
Kosovo Government Securities (with maturities of 3 months or less)	-	3,000
Amounts held at the CBK		
Current accounts	7,010	7,309
Statutory reserves	40,727	37,610
Balance with Deutche Bundesbank	15,682	17,361
	112,490	**121,264**

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

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

Cash and cash equivalents as at 31 December 2017 and 2016 are presented as follows:

	2017	2016
Cash and balances with Central Banks	112,490	121,264
Statutory reserves	(40,727)	(37,610)
Loans and advances to banks with original maturities of 3 months or less (note 12)	51,669	63,346
	123,432	**147,000**

14. Loans and advances to banks

	2017	2016
Current accounts	17,007	33,016
Time deposits with banks	46,979	33,988
	63,986	**67,004**

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

- Deposits in EUR: from (-0.55)% to 0.00 % p.a. (2016: from (0.38)% to 0.07 % p.a.); and
- Deposits in USD: from 0.00% to 1.62% p.a. (2016: from 0.42% to 1.05% p.a.).

15. Loans and advances to customers

	2017	2016
Loans to customers	465,654	427,635
Overdrafts	39,431	46,695
Credit cards receivable	484	686
	505,569	**475,016**
Impairment allowance	**(22,928)**	(22,502)
	482,641	**452,514**

	2017			2016		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Retail customers:						
Overdrafts	2,216	(243)	1,973	2,577	(327)	2,250
Credit cards	193	(28)	165	337	(36)	301
Private loans	8,064	(222)	7,842	9,941	(279)	9,662
Home improvement	132,191	(7,480)	124,711	126,970	(7,269)	119,701
Corporate customers:						
Overdrafts	37,721	(1,552)	36,169	44,793	(1,591)	43,202
Up to EUR 150 thousand	147,176	(7,912)	139,264	154,881	(8,325)	146,555
Above EUR 150 thousand	178,009	(5,491)	172,517	135,517	(4,675)	130,843
	505,569	(22,928)	482,641	475,016	(22,502)	452,514

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

31 December 2017	Private	Business	Total
Neither past due nor impaired			
Significant existing borrowers	10,882	271,293	282,175
Significant new borrowers	11,841	46,636	58,477
Other borrowers (less than 30 thousand Euro)	109,354	18,454	127,808
	132,077	**336,383**	**468,460**

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 30 thousand Euro)	114,823	30,575	145,398
	129,599	**310,480**	**440,079**

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 2017 were as follows:

	2017			2016		
	Business	Private	Total	Business	Private	Total
At 1 January	14,591	7,911	22,502	18,543	7,297	25,840
Charge for the year	368	(368)	-	1,786	14	1,800
Unwinding of discount	(830)	(45)	(875)	(1,139)	(57)	(1,196)
Loans written-off	1,583	(282)	1,301	(3,559)	(383)	(3,942)
At 31 December	**15,712**	**7,216**	**22,928**	**15,631**	**6,871**	**22,502**

In charge of the year are included EUR 10,970 thousand income from reversal of loan loss provision (2016: EUR 15,776 thousand), EUR 6,006 thousand recovery amount of written-off loans (2016: EUR 4,485 thousand) and loan loss provision expense EUR 16,976 thousand (2016: EUR 22,061 thousand).

At 31 December 2017, the loan portfolio includes loans to employees of the Bank of EUR 728 thousand (2016: EUR 779 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.

16. Available-for-sale financial assets

	2017	2016
Shares in companies located in OECD countries	75	69
Debt securities	106,104	131,309
Total	**106,179**	**131,378**

As at 31 December 2017, the financial assets available for sale amount to EUR 106,179 (2016: EUR 131,378). Please refer to note 2(j) and 6(a) for further information.

17. Intangible assets

	Software
Cost	
At January 2016	6,241
Additions	421
Disposals	(155)
At 31 December 2016	**6,507**
Additions	383
Disposals	-
At 31 December 2017	**6,891**
Accumulated depreciation	
At 1 January 2016	5,661
Charge for the year	846
Disposals	(152)
At 31 December 2016	**6,356**
Charge for the year	452
Disposals	-
At 31 December 2017	**6,807**
Net carrying value	
At 31 December 2016	**152**
At 31 December 2017	**83**

18. Property and equipment

	Land	Buildings	Assets under construction	Furniture and fixtures	Electronic equipment	Leasehold improvements	Total
Cost							
At 1 January 2016	**4,907**	**6,229**	**732**	**1,542**	**20,125**	**1,988**	**35,522**
Additions	-		1,415	24	1,234	-	2,673
Transfers	-	38	(642)	-	-	604	-
Disposals	-	(29)	-	(1,004)	(5,383)	(124)	(6,540)
At 31 December 2016	**4,907**	**6,238**	**1,505**	**562**	**15,975**	**2,469**	**31,655**
Additions	-	46	1,446	108	1,674	3	3,276
Transfers	-	2,848	(2,911)	1	(1)	64	-
Disposals	(450)	-	(28)	(78)	(4,503)	(698)	(5,757)
At 31 December 2017	**4,457**	**9,132**	**11**	**593**	**13,145**	**1,837**	**29,174**
Accumulated depreciation							
At 1 January 2016	-	2,358	-	1,426	14,808	834	19,426
Charge for the year	-	325	-	69	1,709	271	2,374
Transfers	-	-	-	-	1	-	-
Disposals	-	(1)	-	(990)	(5,438)	(93)	(6,521)
At 31 December 2016	**-**	**2,683**	**-**	**505**	**11,079**	**1,012**	**15,279**
Charge for the year	-	216	-	86	1,850	232	2,384
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	(77)	(4,356)	(361)	(4,794)
At 31 December 2017	**-**	**2,899**	**-**	**513**	**8,574**	**884**	**12,870**
Net carrying value							
At 31 December 2016	**4,907**	**3,555**	**1,505**	**57**	**4,896**	**1,456**	**16,376**
At 31 December 2017	**4,457**	**6,232**	**11**	**79**	**4,572**	**952**	**16,303**

19. Other financial assets

	2017	2016
Accrued account maintenance fees	570	256
Security deposits	521	593
Receivables from financial institutions	2,320	595
Receivables from clients (Not related to lending)	4,455	3,384
Other assets	212	284
	8,078	**5,112**

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.

20. Other assets

	2017	2016
Prepaid expenses	298	205
Year-end clearance accounts	567	3,763
Inventories and advances	441	1,091
Repossessed assets	2,842	0
	4,147	**5,059**

The Bank has recognised for the first time repossessed assets as at 31 December 2017. Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The Bank typically obtains repossessed assets at the third auction with a value of 1/3 of the valuation provided by the independent valuation specialists.

The initial amount of repossessed collateral was recognised based at the lower value between cost when acquired, the value granted from the auction, and fair value less cost to sell (NRV). The value of repossessed assets recognised for the first time as at 31 December 2017 amounts at EUR 2,841,567 (2016: nil).

21. Due to banks

	2017	2016
Current accounts	260	227
	260	**227**

22. Due to customers

	2017	2016
Current accounts	440,843	407,149
Saving accounts	166,103	195,233
Term deposits	59,180	76,206
Other customer accounts	7,345	10,255
	673,471	**688,843**

Balances due to customers (current accounts, savings and term deposits) include an amount of EUR 5,228 thousand (2016: EUR 5,365 thousand) that represents cash collateral obtained for loans, guarantees, letters of credit and payment orders on behalf of customers.

The published annual interest rates at 31 December 2017 and 2016 were as follows:

	2017	2016
Saving accounts	0.01%	0.05%
Time deposits:		
- Six months	n/a	n/a
- One year	0.01%	0.10%
- Two years	0.01%	0.10%
- Three years	0.01%	0.10%
- Four years	n/a	0.10%
- Five years	n/a	0.50%

Current accounts do not generally bear interest.

23. Other financial liabilities

	2017	2016
Accrued expenses	209	84
Suppliers payable	816	1,056
Due to related parties	141	167
Pension contribution payable to Kosovo Pension Fund	52	78
	1,218	**1,385**

24. Other liabilities

	2017	2016
Provision for untaken vacation	184	171
Provision for litigation cases	1,126	912
Provision for guarantees	320	260
Other	1,117	516
	2,747	**1,859**

25. Borrowings and subordinated debt

	2017	2016
Borrowed funds from European Investment Bank (EIB)	10,034	10,034
Subordinated debt from ProCredit Holding AG & CO.KGaA	7,644	7,645
	17,678	**17,679**

Included in term deposits is also the accrued interest of term deposits and borrowings and subordinated debts. Movements in interest accrued as at 31 December 2017 and 2016 are presented below:

	2017	2016
Opening balance	2,422	3,987
Interest expense	1,185	1,803
Interest paid	(2,384)	(3,368)
Closing balance	**1,223**	**2,422**

Based on an agreement with EIB signed on November 2013, EUR 10,000 (2016: EUR 10,000 thousand) was obtained and as per agreement, the purpose of these funds is to finance projects that are undertaken by small and medium sized enterprises.

Subordinated debt of EUR 7,500 thousand (2016: EUR 7,500 thousand) was obtained from ProCredit Holding AG & CO.KGaA under a subordinated loan agreement signed on September 2014. The subordinated debt of EUR 7,645 thousand (2016: EUR 7,645 thousand) at 31 December 2017, includes the principal and accrued interests. Pursuant to the approval granted by the Central Bank of Kosovo, the subordinated debt was classified as Tier II capital and included in the regulatory capital of the Bank.

26. Shareholder's equity and reserves

Share capital At 31 December 2017 the authorised share capital comprised 12,269,242 ordinary shares (2016: 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 (2016: 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.

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

	2017	2016
Balance at 1 January	223	(6)
Revaluation losses reserve for AFS investments	112	(602)
Revaluation gains reserve for AFS investments	(150)	856
Deferred taxes on revaluation reserve for AFS investments	3	(25)
Balance at 31 December	**188**	**223**

Dividends paid

Dividends of EUR 10,000 thousand in total or EUR0.82 per share (2016: EUR 20,000 thousand or EUR 1.63 per shares) were approved in May and paid to the sole shareholder in September 2017.

27. Related party transactions

The ProCredit Group (the 'Group') is composed of development-oriented banks operating in the Eastern Europe and Latin America, as well as a bank in Germany. The Parent company of the Group is ProCredit Holding, a Frankfurt based entity which guides the Group. 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 2017 and 2016 are as follows:

	Relationship	2017	2016
Assets receivable from:			
Loans and advances to other ProCredit banks	Entities under common control	2,980	4,472
Financial assets due from other ProCredit banks		75	89
Financial assets due from Quipu GmbH		20	39
Other financial assets		20	17
		3,095	**4,617**
Liabilities due to:			
Due to other ProCredit banks	Entities under common control	208	391
Financial liabilities to other ProCredit banks		117	133
Financial liabilities to Quipu GmbH		122	33
Due to Quipu GmbH		99	97
Due to ProCredit Holding AG & Co. KGaA	Parent company	32	99
Subordinated debt from ProCredit Holding AG & Co. KGaA		7,644	7,645
		8,222	**8,398**

At 31 December 2017, the Bank had a standby line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2016: EUR 15,000 thousand), maturing on 11 March 2018 (the maturity date shall automatically be extended by one year) for the purposes of meeting general financing needs.

	Relationship	2017	2016
income from:			
Interest income from ProCredit banks	Under common control	(13)	(7)
Other income from ProCredit Group		183	1
		170	**(6)**
Expenses:			
The Parent: Interest expenses for subordinated debt	Parent	506	517
The Parent: Other administrative expenses		1,456	1,217
The Parent and academies: Training expenses		675	575
The Parent: commitment fees		198	128
Quipu GmbH: IT services	Under common control	1,341	1,339
Quipu GmbH: Card processing fees		1,360	1,271
		5,536	**5,047**

Key management remuneration:	**2017**	**2016**
Salaries	216	263
Short-term pension contributions (mandatory scheme)	11	13
Personal income tax	20	24
	247	**300**

28. Commitments and contingencies

	2017	2016
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	62,239	61,281
International guarantees	17,638	16,840
Local guarantees	13,366	9,712
Letters of credit	1,887	536
Less: Provisions recognised as liabilities	(320)	(260)
	94,810	**88,109**
Credit commitments		
Unused credit card facilities	3,059	3,909
Unused overdraft limits	31,309	38,818
Non-disbursed loans tranches	15,199	9,732
Unused portion of credit lines	12,672	8,822
	62,239	**61,281**

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

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

Legal cases In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 December 2017 except for those already provided for (Note 24).

Operating lease commitments

The Bank has entered into commercial property leases for its offices. At 31 December 2017 and 2016, the Bank's future minimum non-cancellable lease commitments were EUR 211 thousand (2016: EUR 231 thousand). The majority of these commitments are not longer than one month.

29. 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.