ProCredit Bank
Kosovo

ANNUAL REPORT AS OF 31 DECEMBER 2023

Our mission

We strive to be the leading bank for small and medium-sized enterprises (SMEs) in our market as well as for private customers who have the capacity to save and prefer to bank through electronic channels, and we follow sustainable and impact-oriented banking practices.

In doing so, we want to generate long-term sustainable returns and create a positive impact in the economy and society we work in.

Financial year in brief

MARKET POSITION STRENGTHENING

- In 2023 we expanded our loan portfolio by 10.9%.
- Successful development of our SME clients despite challenging market conditions.
- Effective digital banking contributed to strong growth in deposits by 4.5%.
- We continued to maintain a solid capitalisation that is reflected in a total ratio of regulatory capital of 16.8% and a leverage ratio of 9.9%.

GOOD FINANCIAL PERFORMANCE BEYOND GOALS

- The increase in interest income, accompanied by a low cost of risk, led to a return on equity (ROE) of 20.8%, outperforming our projected target of 17.1%.
- Profit before taxes and loss allowances increased by 14°/o compared to a year ago, mainly driven by a stronger net interest margin (3.5%).

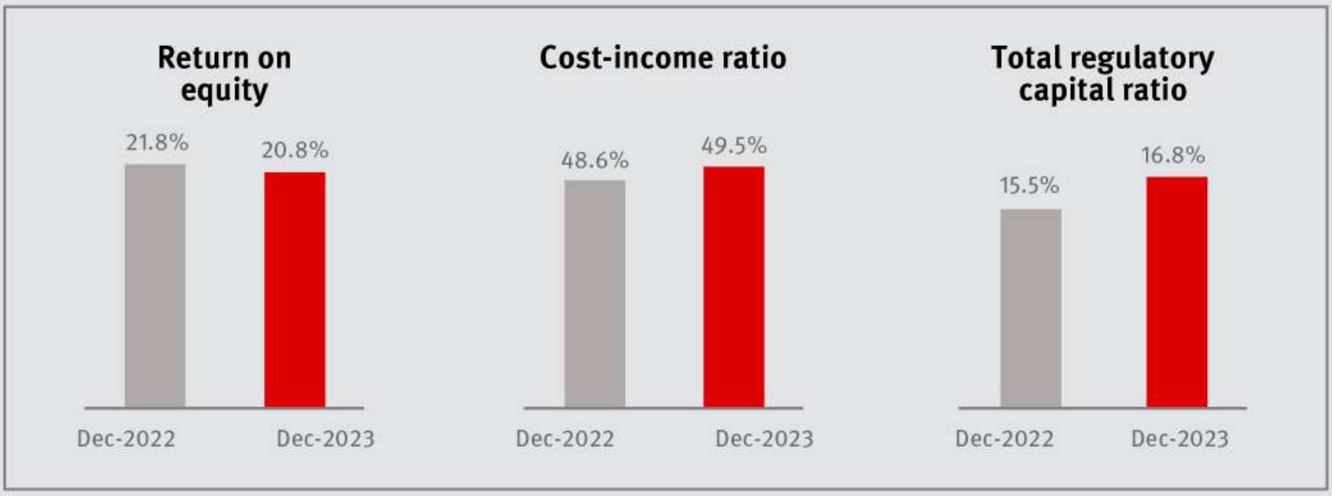
STRONG FOCUS ON SUSTAINABILITY

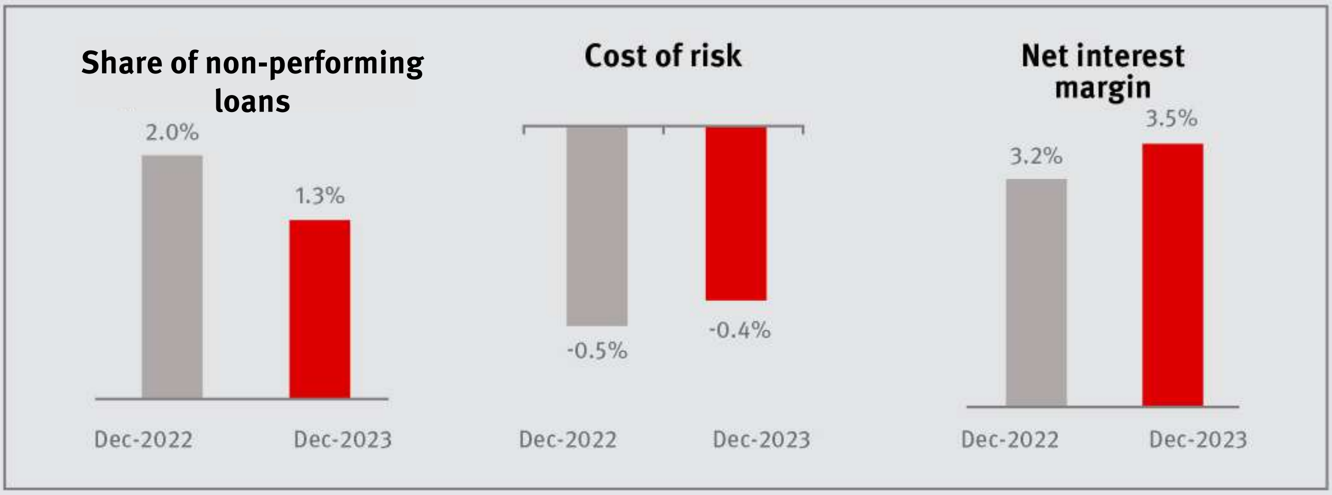
- Increasing our green loan portfolio by 5.5% highlights our engagement in energy efficiency and green investments. Within the total portfolio, green loans hold a share of 15.6%.
- Our ability to maintain a high portfolio quality is attributed to our close relationship with our clients, which has resulted in decreasing the share of non-performing exposures to 1.3%.

2024 GOALS AND MID-TERM PERSPECTIVE

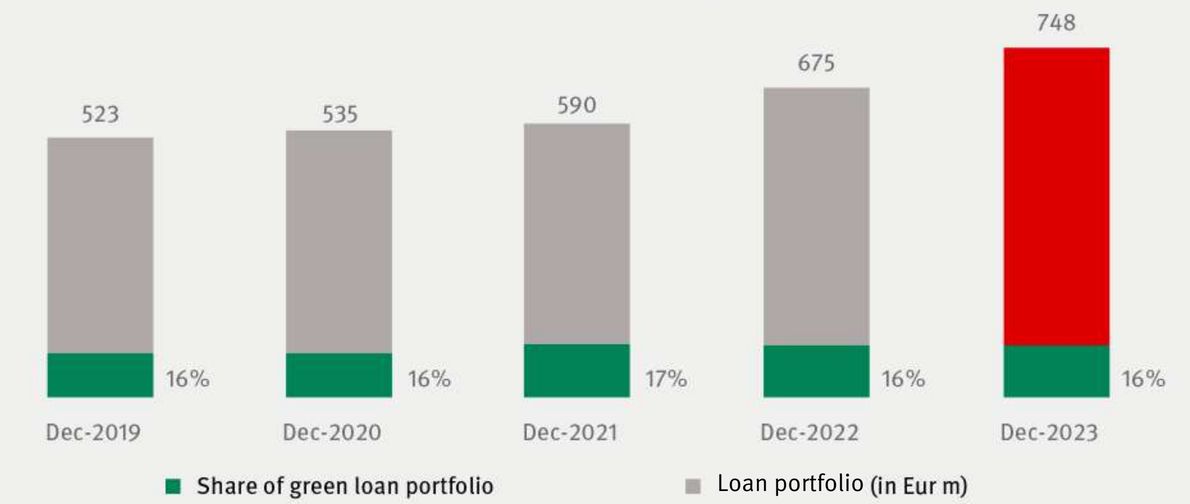
- In 2024 we aim to continue growing our loan portfolio while also expanding our green loan portfolio.
- We are committed to increasing our main source of funding from both private and business clients.
- We will focus on ensuring sustainable levels of return on capital and effective management of the cost-income ratio.

Key financial figures





Loan portfolio growth and share of green loan portfolio



For detailed information about our approach to sustainability, our impact and contribution to the Sustainable Development Goals, please refer to the ProCredit Group Impact Report.

Content

ProCredit today

Over nearly a quarter-century, ProCredit Bank has evolved its adaptability to dynamic environments. At its core, this resilience stems from our people—a carefully curated team of skilled professionals and managers embodying our commitment to meaningful impact. This dedication harmonizes with ProCredit Bank's evolving perspective on economic development, transitioning from financial support to a proactive and structured approach to fostering sustainable economic growth.

Our updated business strategy is geared towards fortifying our business development and sustaining profitable growth. Central to this strategy is a significant expansion of our presence in the SME and retail segments, where we aim to amplify our impact through scale and innovation. We aspire to broaden our reach among private customers by extending our services to a wider audience, offering our comprehensive set of banking solutions. Furthermore, we are committed to upholding responsible lending practices, prioritising borrowers' repayment capacity and ensuring transparency in our interest rates. Our goal is to foster a culture of savings and financial responsibility while serving as a beacon of responsible lending in our market.

We firmly believe that what sets ProCredit apart from other banks and financial institutions is our unwavering commitment to assessing the environmental impact of our actions and operations. This principle is deeply ingrained in our business approach, complementing our focus on sustainable development. Moving forward, we are dedicated to setting benchmarks in environmental, social, and governance (ESG) matters. Our aspirations include ambitious targets, such as achieving net-zero emissions for our entire loan portfolio. Building on this foundation, we proudly unveiled our ProEnergy solar park this year, which boasts a capacity of 3 MW. This initiative provides clean energy equivalent to the electric energy consumed by nearly 500 households, marking a significant stride towards achieving clean energy in Kosovo. Furthermore, we achieved a notable milestone by securing advanced EDGE building certification for our head office, making us the region’s first recipient of this prestigious distinction. Additionally, in 2023 we proactively developed a Gender Action Plan, in keeping with our dedication to strengthening and formalising our initiatives for women’s empowerment.

ProCredit Bank's principles towards both customers and staff is one of collaboration and partnership, especially when faced with challenging situations. We tackle complex problems together, with mutual respect and a shared sense of responsibility. This unique approach is deeply rooted in our internal culture, which is nurtured and honed daily through our shared approach and actions. The essence of our bank is shaped by the individual identities of our team members, emphasising that it is the people, and not just the mission statements, that define us. This philosophy forms the cornerstone of our community, where we foster a collective commitment to upholding the values and principles of the bank.

MANAGEMENT

Visar Paçarada
Interim Chief Executive Officer

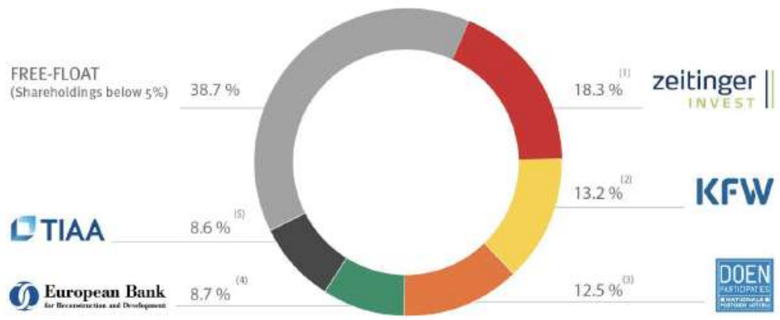
Bejtë Cakaj
Management Board Member

Shareholder stucture

ProCredit Kosova Bank is owned by ProCredit Holding AG, the parent company of the ProCredit group with a special focus on economic development, as well as with extended operations in Southeast and Eastern Europe.

According to available voting rights notifications or voluntary disclosures, as of year-end approximately 53% of the shares in ProCredit Holding were held by the largest shareholders: Zeitinger Invest GmbH, Kreditanstalt für Wiederaufbau (KfW), DOEN Participaties BV, and the European Bank for Reconstruction and Development. In addition, ProCredit Staff Invest GmbH & Co. KG holds a stake of around 2.5%.

The Teachers Insurance and Annuity Association of America holds between 5% and 10% of the shares. The free float, defined by the German Stock Exchange as holdings below the threshold of 5% of voting rights, was around 39% on 31 December 2023 according to voting rights notifications or voluntary disclosures. This includes investments of more than 3% in ProCredit Holding AG by FMO (Netherlands Development Finance Company), BIO (Belgian Investment Company for Developing Countries) and MainFirst.



(1) According to voluntary disclosures by Zeitinger Invest on 13 April 2023 (see "Other information" in the Investor Relations section of the ProCredit Holding website); (2) According to voluntary disclosures by KfW on 17 April 2023 (see "Other information" in the Investor Relations section of the ProCredit Holding website); (3) According to voluntary disclosures by DOEN Participaties on 14 April 2023 (see "Other information" in the Investor Relations section of the ProCredit Holding website); (4) According to the voting rights notifications as of 23 May 2023; (5) According to the voting rights notifications as of 29 December2016

The shareholder structure presented above is based on public voting rights notifications by EBRD and TIAA and, in the case of Zeitinger Invest GmbH, KfW and DOEN Participaties B.V., on the voluntary disclosure of voting rights (see "Voting rights notifications" and "Other information" in the Investor Relations section of the ProCredit Holding website). This breakdown was calculated by comparing the number of voting rights reported by the shareholders on the above-mentioned dates against the total number of voting rights (currently 58,898,492). ProCredit Holding AG has made reasonable efforts to provide a realistic overview of the shareholder structure. However, due to limitations on the availability and verifiability of the underlying data, ProCredit Holding AG does not assume any responsibility that the information presented here is accurate, complete and up to date.

FitchRatings

BB

ProCredit Bank is the only bank in Kosovo rated by the international rating agency Fitch Ratings.

Supervised by BaFin

We work in compliance with the best banking practices and regulatory standards in Germany, a banking system that has proven to be the most stable in Europe. The consolidated ProCredit banks are under the supervision of BaFin – the German Federal Financial Supervisory Authority.

Digital approach

Technology and digitalisation are increasingly becoming a priority in banking operations. ProCredit Bank is no exception, of course: automation and digitalisation not only improves our client experience, but also creates a competitive advantage for the bank. ProCredit Bank uses advanced technology to provide services to clients, and the ProCredit group is a pioneer of financial industry innovation in all countries of operation.

ProCredit Bank is the first bank in Kosovo to successfully digitalise almost all non-financial transactions. In addition to these advancements, in recent years the bank has expanded the functions of its e-banking platform by adding new services, such as applying for services and managing data.

In addition to digitalising our banking services, in order to enable our business clients to make fast, secure, and efficient payments, in 2023 we launched the “mPOS” service. This service allows ProCredit Bank’s business clients to accept contactless card payments conveniently using their Android smartphone or tablet, further streamlining their operations and enhancing customer satisfaction.

Ultimately, the goal of ProCredit Bank is to continue providing financial and non-financial services via various digital channels to give clients a full banking experience, while at the same time remaining committed to providing personalised expertise to our clients on their various financing needs through our Client Advisers.

mPOS

Green approach

Environmental protection is often overshadowed by the pressing issues of the day, thus making the market in Kosovo less conducive to green financing. Consequently, over the years, ProCredit Bank Kosovo has done much more than simply design and issue loans for green purposes. We have dedicated resources to campaigns to increase general environmental awareness among the public, accompanied by regular training for our staff that enables them to influence the improvement of the environmental performance of the businesses we work with. The growth of the bank's green portfolio is proof of our intensive efforts in this direction. By December 2023 our green portfolio already accounted for 15.6% of our total loan portfolio. Comprehensive training is provided to our staff not only at the bank level, but also at the group level through professional development opportunities offered at the ProCredit Banker Academy and the ProCredit Management Academy located in Fürth, Germany.

Minimising the negative environmental impact of our clients' business activities and our own operations, and proactively promoting a sustainable way of doing business, are integral parts of ProCredit Bank's strategy. This applies not only to our lending activities and service provision to our clients, but also to our daily activities.

Providing green financial services also means examining the credibility of ProCredit Bank itself, especially where it concerns environmental performance. Green financing includes the three pillars of ProCredit Bank's environmental management system (EMS), which became part of the group's approach in 2011.

Internal environmental management

Our approach is based on processes and procedures that help us systematically reduce our direct environmental footprint.

Greening the banking infrastructure and communicating about environmental issues increases awareness in our institutions and leads to improved consumption of resources.

Social and environmental risk management in lending

We acknowledge our responsibility for the environmental and social (ES) impact of our customers.

To mitigate ES risks and assess the potential ES impact of funded investments, a comprehensive ES assessment is an integral part of our risk analysis.

Green finance

We aim to have a positive environmental impact by promoting green investments in the country where we operate.

We support clients who want to improve business processes in an environmentally sound manner by investing in energy efficiency, renewable energy, or environmental protection.

Our approach to environmental management

In order to minimize our environmental footprint, we constantly analyze and monitor the impacts of these activities. We set targets that are clearly designed to reduce energy emissions by improving energy efficiency, promoting the use of renewable energies and reducing resource consumption. We set an example for companies by using green building standards in practice and we clearly certify our efforts. We regularly publish our achievements in the field of environment both domestically and abroad, taking care to raise awareness among employees and customers alike.

We use ProEnergy solar power

Our 3 MWp solar park, ProEnergy, is a sustainable initiative that aims to reduce Kosovo's dependence on non-renewable energy sources while promoting social and economic progress. The solar park began operating in July 2023 and is expected to produce 3,711 MWh of energy annually, thereby reducing the use of carbon-intensive energy sources and reducing greenhouse gas emissions.)

Furthermore, the project has only a minimal environmental impact, with no noise or air pollution and no changes in land use. Additionally, the local community benefits from job creation, lower energy costs and higher property values. ProEnergy also aims to strengthen expertise and technical know-how among local and regional suppliers and partners.

ProEnergy serves as a model for this type of investment in the private sector, promoting energy independence and security in a highly volatile market. By investing in ProEnergy, we are contributing to a sustainable future for the region and also moving closer to the group's commitment to net-zero.

ProEnergy inauguration

Environmental and social risk assessment. This includes not only internal measures, but also mechanisms to assess the environmental and social impact of ProCredit Bank clients. We have established an E&S risk strategy and structure which is embedded in our general risk approach. We take a differentiated approach to our borrowers that enables us to assess the climate risk based on their sector of activity.

Green loans. In the last decade, ProCredit Bank's green loan portfolio achieved remarkable growth, constituting 15.6% of the total loan portfolio.

Our green lending approach has been continually refined to incorporate the best practices developed over our 17 years of experience in providing green loans to SMEs in Kosovo. Considering the energy mix in Kosovo, especially in terms of electricity production, 90% of which is produced using lignite as the primary source of energy generation, the bank has been continually active and a leader in financing photovoltaic systems, which comprises more than 30 MW of installed capacity.

Green investments at ProCredit Bank are broken down into three main categories:

Energy Efficiency
IInvestments that reduce the use of energy by at least 20%.

Renewable Energy
Investments in distribution or utility-scale of renewable energy (RE) generation systems.

Other Environmentally Friendly
Investments in managing waste or organic agriculture.

Business approach

Business clients

ProCredit Bank remains steadfast in supporting the “Hausbank” concept, which is geared towards small and medium-sized enterprises (SMEs), recognising their pivotal role in job creation and economic vitality. Our approach involves close collaboration with SMEs through our dedicated Business Client Advisers, allowing us to deeply understand their needs and offer tailored financial solutions efficiently and responsibly.

In line with our group’s strategy, ProCredit Bank has developed the “Hausbank” business concept even further to encompass not only loan financing but also a comprehensive suite of modern financial services essential for SMEs. These services include an advanced e-banking platform for seamless national and international transactions, payroll and bulk payments, bill payments, trade finance services, and 24/7 digital banking access.

Our banking services empower SMEs to expand and operate more efficiently, which fosters their sustainability and long-term growth. We aim to establish enduring partnerships with these enterprises, which receive tailored expertise from our specialised Business Client Advisers. This holistic approach forms the foundation of our successful business model, driving the prosperity of SMEs and the economy as a whole.

Rroni Fer
Production of wire meshes, cutting and bending of steel reinforcements, and processing of high carbon steel.

Throughout the year, ProCredit Bank has remained dedicated to financing businesses and providing them with valuable advice to navigate challenges effectively. Special emphasis has been placed on promoting investment loans, particularly for small and medium-sized enterprises (SMEs) in the manufacturing sector, resulting in significant market participation and a notable increase in the business financing portfolio by approximately 56.7 million EUR in 2023. The total volume of credit exposures dedicated to businesses reached 588.5 million EUR by year-end.

As part of our commitment to responsible banking, ProCredit Bank has prioritized compliance with environmental standards. This includes continued support for clients investing in "green loans," which encompass financial services for energy-saving initiatives, renewable energy sources, and other environmentally friendly measures. In 2023, we actively encouraged business clients to invest in electricity-saving measures such as solar panels and pollution-reducing technologies. The portfolio of green loans for business clients now constitutes 18% of the total business loan portfolio.

In addition to offering savings accounts to business customers, ProCredit Bank has facilitated the transfer of surplus liquidity to interest-bearing accounts, providing flexibility in fund utilization. Business customer deposits reached approximately 252 million EUR in volume, marking a significant annual increase of over 20 million EUR.

Our business advisors play a pivotal role in fostering long-term professional relationships with clients and providing them with comprehensive banking services and professional guidance. Continuous investment in the training and development of these advisors underscores our commitment to delivering high-quality service to SMEs.

In 2023, our focus remained on supporting long-term investments, particularly eco-friendly initiatives aimed at energy conservation, alongside continued support for manufacturing businesses. Furthermore, we continued to assist businesses in optimizing sales through POS and mPOS points of sale and e-commerce platforms. ProCredit Bank's overarching goal remains to serve as a reliable "hausbank" for small and medium-sized business clients, fostering enduring partnerships and providing tailored financial solutions to support their growth and development.

Private clients

For almost 25 years, we've stood by the individuals and families seeking to save or invest for a better quality of life. This stems from our unwavering commitment to service excellence, responsible financing, and cutting-edge banking technology, accessible to our customers around the clock.

In 2023, we continued to enhance and diversify our banking services for private customers, while bolstering our physical presence through additional service points. Every strategic decision aims at enriching the banking experience for our customers, tailoring services to their needs, and offering personalized financial advice through our dedicated private advisers.

Our pursuit of innovation aligns with evolving banking trends and client needs, driving continuous investments in banking technology. Additionally, strategic expansion of our physical footprint ensures inclusive and efficient service delivery nationwide.

We value our clients' feedback immensely. Hence, our entire team serving private clients is united in the common goal of delivering the best possible banking experience, diligently managing all customer requests to exceed expectations.

Socially responsible approach

ProCredit Bank is driven by a commitment to sustainable long-term economic development, which shapes our business operations and decisions. While this may sometimes mean forego-ing immediate profits, we take a prudent approach to our clients' investments and consump-tion desires, ensuring the well-being of family economies and SMEs.

Our dedication to social responsibility extends beyond financial activities. We have played a vital role in Kosovo's economic development and social transformation. Through sponsorships of cultural and sports events like Dokufest and the Prishtina Half Marathon, and by supporting many ICT (Information and Communication Technology) events, we contribute to the enrich-ment of community life. ICT events play a crucial role in fostering innovation, driving economic growth, and enhancing digital literacy within communities. ProCredit Bank's involvement in these events demonstrates its commitment to supporting technological advancements and digital initiatives.

In 2023, we expanded our support for cultural endeavors by sponsoring the inaugural Mitrovi-ca International Jazz Days festival, showcasing local and international talent and many other cultural initiatives.

At ProCredit Bank, we prioritize environmental stewardship and integrate sustainable practic-es into our operations. Our commitment to green financing goes beyond superficial measures like green product offerings or carbon neutrality through certificate purchases. Instead, we institutionalize sustainability by reducing paper usage, utilizing environmentally friendly transport, and actively contributing to green initiatives such as tree planting and urban green-ing.

Our environmentally friendly fleet

Risk management

Credit risk management

ProCredit Bank defines credit risk as losses to be incurred if a party to the transaction cannot fulfil the contractual obligations, either in full or in due time. The bank distinguishes between a client's credit risk and the counterparty risk in the context of the overall credit risk (including lender risk). One of the most Bank's significant risk is credit risk, and customer credit exposures account for the largest share of that risk. ProCredit Bank's core business is to provide financial support to small and medium business clients as well as private individuals who value savings and choose long-term investments. The Bank also continued to focus on Very Small Enterprises, which may include family businesses and agricultural producers. ProCredit Bank aims to offer customers clear and easy-to-understand products, resulting in a high level of transparency for both parties.

The objectives of credit risk management are to achieve high quality of the loan portfolio, low concentrations of risk within the credit exposure portfolio and ensure appropriate coverage of credit risks with loss allowances. The Bank's Framework for Credit Risk Management contains relevant policies and standards, which are based on the policies of the ProCredit Group and set out the Bank's core principles for credit risk management. These strategies, taken together, influence the successful lending activity of ProCredit Bank in developing and transition economies. Further, these documents comply with the laws and regulations of Kosovo. These policies and standards define risk mitigation measures for the pre-disbursement phase (credit risk assessment) and post-disbursement phase (regular monitoring of financial situation, review of early warning indicators, and management of underperforming and non-performing credit exposures).

The bank uses several approaches to limit credit risk during its credit risk management process, including a full financial due diligence of the borrowers' repayment capacity, considering future cash flows as well as the assessment of environmental and social impact, ESG. Credit risk management approaches also includes taking steps to avoid over-indebtedness, a regular review of loan exposure, and close management of credit exposures under surveillance or non-performing credit exposures. In addition, well-designed and documented processes, the four-eye principle, long-term relationships, and regular communication with clients, as well as investing in well-trained and motivated staff help to mitigate credit risk.

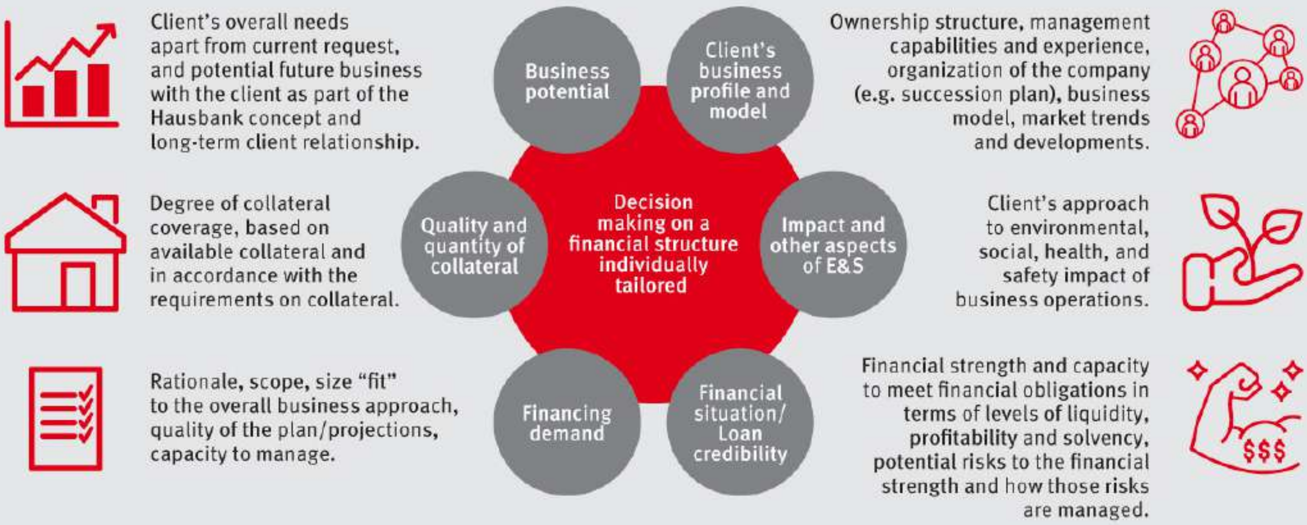
We use a variety of credit risk management techniques while dealing with various client categories and credit exposures, such as: segregation of duties for small and medium-sized credit exposures, implementation of standardized loan procedures for private clients, identification of criteria for credit decision-making, implementation of various collateral requirements based on the loan amount and documentation of the client's credit history. In addition, collateral valuation is done by licensed third-party companies, thus reducing the risk associated with collateral valuation.

Credit risk at the credit portfolio level is assessed regularly. This includes assessing the structure and quality of the portfolio, restructured exposures, repayments, write-offs, the level of coverage with loss allowances and concentration risk. Portfolio developments are monitored and reported upon on regular basis. The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised.

Due to such dynamic macroeconomic environment in which we operate, both for ProCredit Bank and for the entire Group, the Bank uses a loan portfolio monitoring system that is compliant with the International Financial Reporting Standard (IFRS 9) that identifies and manages potential underperforming or distressed credit exposure from the early stages. Because most of the Bank credit exposures are paid in monthly instalments, failure of the borrower to meet contractual obligations is considered an early warning indicator of potential default. This prompts an immediate response from the Bank. The Bank has reviewed the process for identifying and treating customers with potential increased of credit risk at an early stage. The newly defined process requires close monitoring of clients with potential early indicators of credit risk and their addition to the Watchlist for close monitoring. This acts as a preliminary stage of intensified management. Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify default risks at an early stage and take the required measures to avoid a significant increase in credit risk.

Another factor that contributes to a well-managed credit risk management, is that concentration risk in the credit portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to very small, small and medium-sized businesses in various economic sectors and to private clients.
In addition, the Bank's decision-making is also based on macroeconomic analysis with a focus on market and economic sector analyses.

Our 360-degree approach to client and exposure assessment:



Credit risk management was the main focus during the fiscal years 2022-2023, determined mainly by macroeconomic developments. Our extended market knowledge, prudent selection of Bank clients, analysis of fiscal policies, and the implementation of potential strategies to surpass potential credit risks in the future, have contributed to a careful management of credit risk. Following the crisis of increased energy prices, increased inflation impacted by increased interest rates influenced by international macroeconomic developments in 2022 and 2023, ProCredit Bank undertook several steps to ensure stability in the quality of its credit portfolio. Being in continuos communication with all business and private clients, the Bank received important information related to the possible impact on their business activity and finances. This made it easier to assess the risk, with a focus on private individuals who could be more affected by the macroeconomic developments. The bank was able to offer solutions to all clients who experienced financial difficulties due to the crises mentioned above. Monitoring and regular communication with customers served as a useful tool during macroeconomic uncertainties. The bank will continue to have an increased focus on this aspect even during 2024.

In parallel with the economic developments at the local level and beyond, ProCredit Bank intensified the annual monitoring of its customers by updating the credit risk assessment for all business clients. During this process, increased focus was given to the impact of inflation, the crisis identified on economic sectors and the individual impact on the liquidity and solvency of companies. As a result of this extended monitoring of the credit portfolio, the risk classification was updated where necessary and appropriate measures were taken to prevent potential defaults.

Close relationships with our clients enabled us to have good information of their financial situation. This is particularly important in times of crisis and makes it possible to identify credit risks at an early stage and take appropriate measures.

Despite the aforementioned macroeconomic developments, the main indicators of the quality of the credit portfolio improved at a satisfactory level during 2023. At the end of the year, the share of non-performing exposures stood at 1.3%. The portfolio of non-performing exposures was covered by loan loss allowances at a rate of 194%, which is considered more than satisfactory.
Credit risk will continue to be a priority in 2024, both on a portfolio and individual basis. We will continue to support financing requests during the development of our clients' business activities even during potential challenges in the future.

Counterparty risk management

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

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

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

Liquidity and funding risk management

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

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

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

Foreign currency risk management

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

Since we do not hold open currency positions for speculative purposes, ProCredit Bank has a low level to foreign currency risk. Furthermore, the limits set for these risks were never exceeded in 2023.

Interest rate risk management

The interest rate risk arisesfrom structural differences between the repricing of assets and liabilitiesuntil maturity. This can expose the bank to the risk of potential increases in funding costs, while the return on assets may remain the same, or decrease, thus not reflecting funding costs over a longerterm, resulting in a decrease of the margin.

The bank has approved an appropriate policie for this type of risk. We continuously analyse the maturity gap between assets and liabilities (based on repricing). In addition, the Bank conducts stress tests by simulating interest rate fluctuations in order to measure the impact on economic value and interest income. The results of these analyses are regularly reported to the Financial and Market Risk Management Committee, as well as to the Board of Directors.

The bank continuously analyses the structure of the balance sheet and, depending on the increase of interest rate risk, applies corrective measures when necessary.

Capital adequacy management

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

Operational and fraud risk management

Operational risk is defined by the Bank as risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This definition includes, fraud risk, IT risk, legal risk, reputational risk, and outsourcing risk. The Bank implements a set of principles for operational and fraud risk management throughout the institution, through specific policies, the principles of which are in compliance with regulatory requirements.

The main tools utilized by the Bank for the management of operational risks are Risk Event Database (RED), annual risk assessments, key risk indicators (KRI) and the analysis of all new services and processes that pass through the New Risk Approval (NRA) process. The bank uses operational and fraud risk assessments to identify, assess and monitor operational risks at all levels. In accordance with Basel II, the Bank continuously assesses operational risks that may be created from its services, processes, and systems. Additionally, the bank's internal control system includes deficiency mitigation procedures, including necessary corrective and preventive actions. To keep information technology risks to a minimum, the bank implements procedures for the protection of its IT structure, to ensure business continuity and to strengthen information security. Furthermore, the bank provides training on the Code of Conduct, this commitment document emphasizes the importance of staff integrity and promotes a culture of transparency and risk awareness. The principles of operational, fraud and information security risks are addressed during regular staff trainings to raise risk awareness at all levels.

Traditionally, ProCredit Bank has considerably invested in information security, therefore, during the year 2023, it has prioritized improving its information security measures by implementing advanced technologies for detecting and preventing information security threats, conducting regular security risk assessments, and enforcing strict access controls on the bank's network and systems.

Furthermore, the group and the bank are following a proactive risk management strategy, including the application of a comprehensive risk management framework and continuous monitoring of cyber threats evolution. Another important aspect was the advancement of training and awareness programs for employees to foster a culture of information security awareness. From a regulatory and legal perspective, the bank has continued to comply rigorously with current legislation, regulations, and international standards in this field, while also investing in new security technologies to enhance threat detection capabilities in line with recommendations from local and international institutions.
Overall, ProCredit Bank remains committed to being a leader in advancing digital banking services while creating adequate information security capabilities to maintain the trust of clients and other related parties as it operates in the constantly evolving cyber space.

Prevention of money laundering and terrorist financing

The responsible approach is an integral part of ProCredit Bank's business model values. Part of the ethical responsibility of the Bank is the prevention of money laundering and other financial crimes. It is the policy of the Bank not to enter into business relationships with individuals or companies whose values are in conflict with ours. Our ethical responsibility is documented through our Code of Conduct and Exclusion List, which includes the essential rules that all bank employees must carefully observe. The Policy on the Prevention of Money Laundering specifies how these rules should be applied in the framework of the prevention of all forms of financial crime.

ProCredit Bank is in full compliance with the requirements set forth in Kosovo legislation for the prevention of money laundering, financing of terrorism, and other unlafwul acts. ProCredit Bank Kosovo, as part of the ProCredit Group, implements both, the Group's policies and standards for the prevention of money laundering and financing of terrorism, which are in full harmony with the requirements of German and EU legislation.

Raising the awareness of all bank employees about risks from money laundering or financing of terrorism, as well as adopting a conservative approach to risk management, is an integral part of the bank's business strategy. Therefore, all Bank employees complete intensive training focusing on the most recent developments in the field of prevention of money laundering, financing of terrorism, and international sanctions. Furthermore, the Department for the Prevention of Money Laundering and Financing of Terrorism is an independent Department within the organizational structure of the Bank, which reports directly to the Management Board of the bank.

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

Our staff

Our employees are our most important asset. We can proudly say the way we work with our employees is very special. ProCredit Bank values meritocracy, open discussions, and knowledge. We believe that people should care about the society they live in and make an active contribution instead of just being passive observers.

This is our story:

- All our new staff go through a six-month international orientation training programme that advances their knowledge of banking, accounting, and finance, as well as the society in which they live, along with critical thinking, presentation skills, the environment, etc.

- Every year we provide many English language courses for our staff, online or at our academies in Germany. After the many courses that we have provided, we can proudly say that all employees of our bank speak English at least at the B1 level.

- All our senior and middle managers have completed or are currently taking part in the three-year training programme at the Management Academy in Fürth, Germany. In addition, for our high-potential specialists, a one-year Banker Academy programme is offered, where participants are carefully selected each year. So far, 22.5% of our staff have graduated from or are currently attending one of the ProCredit academies.

- In 2023, some 180 hours of training were provided for each employee.

- In 2023, we invested EUR 770,000 in employee training.

ProCredit Bank relies on the professionalism and best-quality services provided to clients by our employees. That is why we insist on being transparent when communicating with clients, but also when our employees communicate with each other. Each of our employees, from the first day of work at ProCredit, is informed about what is offered to them, how they can develop professionally and advance in their career. This is achieved by strictly following our self-imposed principles:

Clear salary structure

We do not give bonuses. Instead, we provide comprehensive salaries in line with the transparent salary structure for the entire ProCredit Group that combines intensive training, internal promotions and, most importantly, long-term perspective for our staff. In this way, colleagues do not see each other as rivals, but rather as members of the same team. Also, it motivates our staff not just by financial gain.

Code of conduct

All ProCredit Group banks have the same Code of Conduct, which is available to all our staff in English only, as we want to ensure that all its core principles are the same and not affected by translation. This is not just a formality, a simple questionnaire that is signed by our staff every year. The Code of Conduct represents our moral compass, challenges us to think outside the box and to question the ethical aspect of our daily actions.

Staff feedback

ProCredit Bank staff are encouraged to share their opinions, ideas, impressions, and concerns. Therefore, despite the open-door policy of our managers, for a decade we have also created the staff appraisal system. This system combines conversations with the direct supervisor and the staff about their performance. It is held twice a year. Additionally, there are the annual conversations of the staff with the bank's senior management. Staff interviews provide opportunities for discussion with staff on specific topics as well as their performance and perspective. Staff debriefings with senior management provide a broader institutional overview. The purpose of both types of conversations with staff is to see their performance, qualitatively and quantitatively, and to create an opportunity for each staff member to discuss progress, expectations, and further opportunities for development.

With all the above-mentioned systems in place, in 2023 ProCredit Bank will focus on stepping up considerably staff activities, recruitment and investment increase in local trainings as well as general trainings already well-places in the Bank. We have opened our doors to all interested young people, regardless of their field of education, who are ready to join us and who meet our strict recruitment criteria, mainly in positions such as Business Client Advisors, Private Client, and Credit Risk Analysts. We have always been and continue to be a bank that gives the opportunity to young people who want to stay in Kosovo and help society, learn, start, and build their careers and achieve the maximum of professional development. This will never change, this is ProCredit Bank's DNA.

Independent Auditor's Report and Financial Statements

PROCREDIT BANK SH.A. KOSOVA

Independent Auditor's Report and Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2023

CONTENT

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of ProCredit Bank Sh.a (the "Bank"), which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2023, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other information in the Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank in accordance with the requirements of the Law No. 04/L-093. The Annual Report of the Bank is expected to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

BDO
BDO Kosova L.L.C
audit, accounting and financial advisory
Prishtina, Kosova

Arrit Dermala
Engagement Partner
BDO Kosova L.L.C.
April 22, 2024
Str. Ukshin Hot, C 4/3, Ent. A, Floor II
Pristina, Kosovo

PROCREDIT BANK SH.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023

In EUR thousand

	Notes	2023	2022
Interest income	7	42,175	33,567
Interest expenses	7	(4,935)	(2,927)
Net interest income		**37,240**	**30,640**
Fee and commission income	8	14,633	14,191
Fee and commission expenses	8	(7,285)	(6,919)
Net fee and commission income		**7,348**	**7,272**
Result from foreign exchange transactions		1,488	1,427
Net other operating result	9	(1,987)	(1,346)
Operating Income		**44,089**	**37,993**
Personnel expenses	10	(6,830)	(5,621)
Administrative expenses	11	(14,981)	(12,834)
Loss allowance	12	2,532	3,202
Profit before tax		**24,810**	**22,740**
Income tax expense	13	(2,496)	(2,086)
Profit for the year		**22,314**	**20,654**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on investments in debt instruments measured at FVOCI, net of tax	13	69	(308)
Total comprehensive income for the year		**22,383**	**20,346**

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2023

In EUR thousand

Assets	**Notes**	**31 December 2023**	**31 December 2022**
Cash and balances with Central Banks	14	192,752	267,551
Loans and advances to banks	15	23,288	25,032
Loans and advances to customers	16	729,774	655,971
Investment securities measured at FVOCI	17	124,418	63,913
Intangible assets	18	52	39
Property, plant and equipment	19	17,057	13,045
Current tax assets	13	-	310
Deferred tax asset	13	166	125
Other assets	20	5,790	3,674
Total assets		**1,093,297**	**1,029,660**
Liabilities			
Liabilities to banks	21	1,066	631
Liabilities to customers	22	936,060	895,780
Other liabilities	23	10,686	6,860
Current tax payables		452	-
Borrowings	24	19,151	22,891
Subordinated debt	24	7,538	7,538
Total liabilities		**974,953**	**933,700**
Equity			
Share capital	25	61,346	61,346
Share premium	25	4,204	4,204
Contingency reserve	25	511	511
Revaluation reserve investment securities -FVOCI	25	(134)	(203)
Retained earnings		52,416	30,102
Total equity		**118,344**	**95,960**
Total liabilities and equity		**1,093,297**	**1,029,660**

These financial statements have been approved by the Management Board on April 22, 2024 and signed on their behalf by:

Visar Paçarada
Interim Chief Executive Officer

Bejtë Cakaj
Management Board Member

Esad Haxhani
Head of Finance Department

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

In EUR thousand

	Share capital	Share premium	Contingency reserve	Retained earnings	Fair value reserve	Total
As at 1 January 2022	**61,346**	**4,204**	**511**	**27,448**	**105**	**93,614**
Profit for the year	-	-	-	20,654	-	20,654
Other comprehensive income	-	-	-	-	(308)	(308)
Total comprehensive income	-	-	-	**20,654**	**(308)**	**20,347**
Distributed dividends	-	-	-	(18,000)	-	(18,000)
Balance as of 31 December 2022	**61,346**	**4,204**	**511**	**30,102**	**(203)**	**95,960**
Profit for the year	-	-	-	22,314	-	22,314
Other comprehensive income	-	-	-	-	69	69
Total comprehensive income	-	-	-	**22,314**	**69**	**22,383**
Distributed dividends	-	-	-	-	-	-
Balance as of 31 December 2023	**61,346**	**4,204**	**511**	**52,416**	**(134)**	**118,344**

The accompanying notes are an integral part of the Financial Statements.

PROCREDIT BANK SH.A.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

In EUR thousand

	Note	2023	2022
Cash flows from operating activities			
Profit before tax		24,809	22,740
Adjustments for:			
Depreciation	19	2,083	1,601
Amortization	18	21	12
Gains on disposal of property and equipment		(37)	(87)
Loss allowance	12	(2,532)	(3,202)
Interest income	7	(42,175)	(33,567)
Interest expense	7	4,935	2,927
Cash flows used in operating activities before changes in operating assets		**(12,896)**	**(9,576)**
Net (increase)/decrease in:			
Loans and advances to banks		1,531	(1,335)
Loans and advances to customers		(71,455)	(82,184)
Other assets		(2,703)	252
Balances with the Central Bank		(362)	1,584
Net increase/(decrease) in:			
Liabilities to other banks		435	(491)
Liabilities to customers		40,279	125,213
Other liabilities		1,464	(744)
Cash (used)/generated in operating activities		**(43,708)**	**32,719**
Interest received		40,807	33,589
Interest paid		(4,913)	(2,914)
Income tax paid		(1,586)	(1,493)
Net cash (used)/generated in operating activities		**(9,400)**	**61,901**
Cash flows from investing activities			
Acquisition of investment securities through FVOCI		(83,543)	(17,206)
Proceeds from disposal of investment securities FVOCI		24,234	24,380
Acquisition of premises and equipment		(3,273)	(1,620)
Proceeds from disposal of premises and equipment		381	84
Acquisition of intangible assets	18	(35)	(12)
Net cash (used)/generated in investing activities		**(62,236)**	**5,626**
Cash flow from financing activities			
Proceeds from long term borrowings		(3,738)	(2,988)
Dividends paid		-	(18,000)
Net cash used in financing activities		**(3,738)**	**(20,988)**
Net (decrease)/increase in cash and cash equivalents		**(75,374)**	**46,539**
Cash and cash equivalents at the beginning of the year		236,319	189,780
Cash and cash equivalents at the end of the year	14	**160,945**	**236,319**

The accompanying notes are an integral part of the Financial Statements.

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

1. Introduction

ProCredit Bank Sh.a. Kosovo ("the Bank") was incorporated in the Republic of Kosovo on 9 December 1999 as a joint stock company. The Bank commenced its operations on January 12, 2000. The Bank is a member of the ProCredit Group, and is wholly owned by ProCredit Holding AG Frankfurt, Germany which serves as the ultimate parent company of the group.

Principal activity

The Bank obtained its license to operate in all banking activities in Kosovo in accordance with the regulations of the Central Bank of Kosovo (formerly the Central Banking Authority of Kosovo) ("CBK") and is presently governed by the Law "On Banks, Microfinance Institutions, and Non-Bank Financial Institutions," No. 04/L-093. Additionally, 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-sized Enterprises (SMEs) and to private individuals. In its operations, it adheres to a several fundamental principles: it values transparency in its communication with customers; does not promote consumer lending, 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. Throughout 2023, alongside its e-Banking platform and website services, the Bank maintained operations through a branch, Contact Centre, and 24/7 (self-service) Zones, aiming to deliver comprehensive and easily accessible services to customers.

Board of Directors:

- Mrs. Eriola Bibolli, Chairperson
- Mr. Marcel Zeitinger, Member
- Mr. Rainer Ottenstein, Member
- Mr. Jordan Damchevski, Member
- Mrs. Semra Citaku, Member

2. Material accounting policy information

(a) Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, incorporating modifications related to the revaluation of Investment securities measured at Fair Value through Other Comprehensive Income (FVOCI). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Use of judgements and estimates

The bank's financial reporting and its financial results are influenced by assumptions, estimates, and management judgements that are essential in the preparation of the Financial Statements. All estimates and assumptions required are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on experience and other factors, including expectations regarding future events, and are considered appropriate under the given circumstances. Revisions to estimates are recognised prospectively. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4, 5 and 6.

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

2. Material accounting policy information (continued)

Functional and presentation currency

The financial statements are presented in EUR, the functional currency of the Bank and the currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousands, unless otherwise specified.

(b) Interest income and expenses

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised through periodic estimation of cash flows for floating-rate instruments to align with fluctuations in market interest rates. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

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

2. Material accounting policy information (continued)

c) Fees and commissions

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating, and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter in 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 based on the actual service provided as a proportion of the total services to be provided. Other fee and commission income and expenses consist of fees and commissions from (for): credit cards, account service fees, international payments, domestic payments, Central Bank fees, SMS banking, guarantees and letters of credit and other fees and commissions. Other fee and commissions are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Leases

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. In such cases, lease payments are recognized as operating expenses on a straight-line basis over the lease term, unless another systematic approach better represents the consumption pattern of economic benefits from the leased assets. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate is not readily determinable, the Bank uses its incremental borrowing rate. Generally, the Bank uses its average interest rate on business loans as the discount rate.

(e) Foreign currency transactions

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

Foreign currency monetary assets and liabilities are translated using the closing exchange rates on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

(f) Income tax

Income taxes have been accounted for in the financial statements in compliance with legislation that has been 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 unless it is recognised in other comprehensive income or directly in equity. This exception applies when the tax charge is associated with transactions that are currently or subsequently recognized in other comprehensive income or directly in equity, whether in the same period or a different one.

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

2. Material accounting policy information (continued)

(f) Income tax (continued)

(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.

(g) Financial instruments

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

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

(ii) Classification
Financial assets
At initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

Business model assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. As a result, the balance sheet items allocated to the "hold to collect" business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets". "Investment securities" are allocated to the "hold to collect and sell" business model.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

Non-recourse loans

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

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

Reclassifications

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

(iii) Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(ii) Classification (continued)

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

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

(v) Offsetting

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

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

(vi) Fair value measurement

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

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(vi) Fair value measurement (continued)

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Impairment

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

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

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

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

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

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

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

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

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

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

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

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

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

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

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: Movements in the ECL allowance are recognized in the statement of profit and loss. However, the allowance itself is credited to the FVOCI reserve.

Write-off

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

Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under "Loss allowances".

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

Non-integral financial guarantee contracts

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

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

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

2. Material accounting policy information (continued)

(g) Financial instruments (continued)

(vii) Impairment (continued)

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

(h) Cash and cash equivalents

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

(i) Loans and advances

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

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

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

(j) Investment securities

The 'investment securities' caption in the statement of financial position includes debt securities measured at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

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

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

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

2. Material accounting policy information (continued)

(k) Property, plant and equipment

Property, plant, and equipment are stated at acquisition or production cost less scheduled depreciation and impairment losses. Acquisition or production costs include all expenditure directly attributable to the goods. Component parts of an asset are recognised separately if they have different useful lives or have different patterns of use. The acquisition costs of rights-of-use assets (ROU) include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, 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 repair and maintenance costs are charged to the Statement of Profit or Loss during the current financial period.

The carrying values of property, plant 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, plant 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 is not depreciated. Depreciation of assets is charged on a straight-line basis at prescribed rates to allocate the cost of property, plant, 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 2023**
Buildings	40 years
Business and office equipment	2-10 years

Leasehold improvements are depreciated over the shorter of rental contract life or expected use life. The rights of use are amortised on a straight-line basis until the end of the lease term.

Property, plant, and equipment with useful lives of more than one year which fall under the materiality threshold of EUR 100 (2022: EUR 100) 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 Statement of 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 comprised of computer software and licenses which are amortised using the straight-line method over their estimated useful life of five years, if not stated otherwise in their corresponding contracts.

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

2. Material accounting policy information (continued)

(m) Repossessed collateral

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

The Bank subsequently measures repossessed collateral at the lower between amount initially recognised and the fair value of the properties less costs to sell. For the assessment of the fair value, the management uses appraisal performed by external expert valuators, licensed as per Central Bank of Kosovo regulation. 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.

A repossessed property is accounted for under IFRS 5 – Held for sale assets, and expected to be sold within one year period, except if there is a delay caused by events or circumstances beyond the bank's controls and there is sufficient evidence that the bank remains committed to its plan to sell the asset. Any loss arising from the above remeasurement is recorded in profit or loss. Gains or losses from the sale of these assets are recognized in the profit or loss.

(n) Due from other banks

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

(o) Deposits and subordinated liabilities

Customer's deposits 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 liability, 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. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, 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 interest expense over time.

(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.

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

2. Material accounting policy information (continued)

(r) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

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

For other loan commitments the Bank recognizes a loss allowance in accordance with IFRS 9.

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

(s) Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are not recognised as liability at year end. The dividends are disclosed in the notes to financial statements.

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

3. Adoption of new and revised International Financial Reporting Standards

3.1. Standards, amendments and interpretations that are already effective

In the current year, the Bank has adopted number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2023.

3.1.1 IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

The Bank does not have any contracts that meet the definition of an insurance contract under IFRS 17.

3.1.2 Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its material accounting policy information. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments have a negligible impact on the financial statements.

3.1.3 Definition of Accounting Estimates (Amendments to IAS 8)

The bank has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

The amendments have a negligible impact on the financial statements.

3.1.4 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments narrow the scope of the initial recognition exemption so entities will need to recognize a deferred tax asset and a deferred tax liability arising from transactions that give rise to equal and offsetting temporary differences.

3.1.5 International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12)

The amendments provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.

The related Pillar Two disclosures are not required. The amendments have no impact on the Bank's financial statements as of 31 December 2023.

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

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

3.2 Standards, amendments and interpretations issued but not yet effective

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

3.2.1 Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

3.2.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

(a) Assumptions and estimation uncertainties

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

(i) Impairment charge for credit losses

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment on loans and advances (ECL) by EUR 1,505 thousand (2022: EUR 1,438 thousand), respectively. Impairment losses for significant individually impaired (SII) 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 significant individually impaired (SII) 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 85 thousand (2022: EUR 274 thousand), respectively.

Increase or decrease in the actual loss experience	+10%		-10%	
	2023	2022	2023	2022
ECL	1,505	1,438	(1,505)	(1,438)
SII	85	274	(85)	(274)

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

5. Financial risk management

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

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

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

(a) Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates, interest rates or other parameters which influence prices. Relevant market risks for the bank are foreign currency risk and interest rate risk in the banking book. Bank is a non-trading book institution. Bank manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with bank's risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are to be used exclusively for hedging or liquidity purposes.

(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 always keep its open currency position close to zero. Open currency position limits and risk-taking capacity for the Bank are set by their respective policies, which are approved by the Board of Directors, and reviewed by the Risk Monitoring Department. 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 Department 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 Department performs stress tests and reports the effects in P&L of the bank on monthly basis.

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

	31 December 2023	31 December 2022
1 USD	0.9050	0.9376
1 CHF	1.0799	1.0155
1 GBP	1.1507	1.1275

The following tables summarise the assets and liabilities of the Bank denominated in foreign currencies as of 31 December 2023 and 2022 as translated into EUR 'ooo.

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

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

31 December 2023	EUR	USD	CHF	GBP	Total
Assets					
Cash and Balances with Central Banks	191,454	929	364	5	192,752
Loans and advances to banks	16,701	6,092	204	291	23,288
Loans and advances to customers	729,774	-	-	-	729,774
Investment securities measured at FVOCI	101,908	22,510	-	-	124,418
Other financial assets	2,006	907	-	-	2,913
Total monetary financial assets	**1,041,843**	**30,438**	**568**	**296**	**1,073,146**
Liabilities					
Liabilities to banks	1,065	1	-	-	1,066
Liabilities to customers	905,092	30,387	284	297	936,060
Borrowings	19,151	-	-	-	19,151
Subordinated debt	7,538	-	-	-	7,538
Other financial liabilities	2,273	4	-	-	2,277
Total monetary financial liabilities	**935,119**	**30,392**	**284**	**297**	**966,092**
Net on-balance sheet financial position	**106,724**	**47**	**284**	**(1)**	**107,054**
Credit commitments	85,029	72	-	-	85,101
Off balance sheet - letters of credit	1,535	39	-	-	1,574
Off balance sheet - bank guarantees	49,988	189	-	-	50,177
Total credit related commitments	**136,552**	**300**	**-**	**-**	**136,852**

31 December 2022	EUR	USD	CHF	GBP	Total
Assets					
Cash and Balances with Central Banks	265,950	1,394	202	5	267,551
Loans and advances to banks	13,167	10,964	213	688	25,032
Loans and advances to customers	655,971	-	-	-	655,971
Investment securities measured at FVOCI	45,291	18,622	-	-	63,913
Other financial assets	1,845	612	-	-	2,457
Total monetary financial assets	**982,224**	**31,592**	**415**	**693**	**1,014,924**
Liabilities					
Liabilities to banks	630	1	-	-	631
Liabilities to customers	863,252	31,489	165	874	895,780
Borrowings	22,891	-	-	-	22,891
Subordinated debt	7,538	-	-	-	7,538
Other financial liabilities	1,622	68	-	-	1,690
Total monetary financial liabilities	**895,933**	**31,558**	**165**	**874**	**928,530**
Net on-balance sheet financial position	**86,291**	**34**	**250**	**(183)**	**86,392**
Credit commitments	84,311	75	-	-	84,386
Off balance sheet - letters of credit	305	465	-	-	770
Off balance sheet - bank guarantees	42,858	363	-	-	43,221
Total credit related commitments	**127,474**	**903**	**-**	**-**	**128,377**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

			Effect on profit or loss and net equity	
	Increase 2023	Increase 2022	31 December 2023	31 December 2022
USD	10%	10%	6	4
Other	10%	10%	25	41

(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. The 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 tables below summarize the Bank's exposure to interest rate risks. Included in the tables are the Bank's monetary assets and liabilities (principal and future interest) with both fixed and non-fixed interest rates (the Bank's IRR management follows the EU guidelines and German MaRisk").

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2023										
Assets										
Cash on hand		-	-	-	-	-	-	-	78,361	78,361
Balances with Central Banks		113,462	-	-	-	-	-	113,462	-	113,462
Current accounts with banks		6,691	-	-	-	-	-	6,691	-	6,691
T-bills and marketable securities	Fixed	38,126	36,035	5,445	1,500	805	-	81,911	(303)	81,608
	Variable	10,253	10,063	149	101	31	-	20,597	337	20,934
Term deposits with banks		10,188	351	-	-	-	-	10,539	-	10,539
Loans and advances to customers	Fixed	28,855	94,202	130,786	35,770	29,369	5,008	323,990	-	323,990
	Variable	296,564	48,894	51,301	25,434	46,774	7,979	476,946	-	476,946
Offbalance sheet items		10,804	32,214	39,241	378	1,426	485	84,548	-	84,548
Total assets		**514,943**	**221,759**	**226,922**	**63,183**	**78,405**	**13,472**	**1,118,684**	**78,395**	**1,197,079**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1,308	1,308
Current accounts from customers		10,904	36,552	84,027	43,828	-	-	175,311	565,404	740,715
Deposits from customers		4,875	21,214	84,114	40,892	11,499	525	163,119	-	163,119
Borrowings and subordinated debt	Fixed	2,994	2,408	4,520	4,566	4,566	-	19,054	-	19,054
	Variable	429	782	7,888	360	1,073	320	10,852	-	10,852
Total liabilities		**19,202**	**60,956**	**180,549**	**89,646**	**17,138**	**845**	**368,337**	**566,712**	**935,049**
IR sensitivity gap- open position		**495,741**	**160,803**	**46,373**	**(26,463)**	**61,267**	**12,627**	**750,347**	**(488,317)**	**262,030**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

EUR interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2022										
Assets										
Cash on hand		-	-	-	-	-	-	-	62,841	62,841
Balances with Central Banks		152,964	-	-	-	-	-	152,964	50,351	203,315
Current accounts with banks		7,557	-	-	-	-	-	7,557	-	7,557
T-bills and marketable securities	Fixed	51	5,276	12,526	5,242	2,092	-	25,187	(51)	25,136
	Variable	10,622	10,600	-	-	-	-	21,222	521	21,743
Term deposits with banks		-	6,518	-	-	-	-	6,518	-	6,518
Loans and advances to customers	Fixed	30,394	99,312	142,966	51,123	37,295	4,524	365,614	-	365,614
	Variable	184,664	26,267	58,062	45,892	32,414	6,529	353,828	-	353,828
Offbalance sheet items		15,308	26,659	38,534	431	2,041	898	83,871	-	83,871
Total assets		**401,560**	**174,632**	**252,088**	**102,688**	**73,842**	**11,951**	**1,016,761**	**113,662**	**1,130,422**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	758	758
Current accounts from customers		11,104	37,223	85,568	44,632	-	-	178,527	537,372	715,899
Deposits from customers		3,870	28,128	41,526	39,631	33,158	500	146,813	-	146,813
Borrowings and subordinated debt	Fixed	3,032	3,469	6,175	3,206	6,038	-	21,920	-	21,920
	Variable	676	1,351	1,353	8,552	-	-	11,932	-	11,932
Total liabilities		**18,682**	**70,171**	**134,622**	**96,021**	**39,196**	**500**	**359,192**	**538,130**	**897,322**
IR sensitivity gap- open position		**382,878**	**104,461**	**117,466**	**6,667**	**34,646**	**11,451**	**657,569**	**-**	**233,101**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2023										
Assets										
Cash on hand		-	-	-	-	-	-	-	929	929
Balances with Central Banks		-	-	-	-	-	-	-	-	-
Current accounts with banks		3,013	-	-	-	-	-	3,013	-	3,013
T-bills and marketable securities	Fixed	8,718	12,685	1,360	-		-	22,763	(207)	22,556
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		3,984	-	-	-	-	-	3,984	-	3,984
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-		-	-
Offbalance sheet items		72	-	-	-	-	-	72	-	72
Total assets		**15,787**	**12,685**	**1,360**	**-**	**-**	**-**	**29,832**	**722**	**30,554**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1	1
Current accounts from customers		296	992	2,281	1,190	-	-	4,759	23,661	28,420
Deposits from customers		2	826	945	62	42	-	1,877	-	1,877
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**298**	**1,818**	**3,226**	**1,252**	**42**	**-**	**6,636**	**23,662**	**30,298**
IR sensitivity gap- open position		**15,489**	**10,867**	**(1,866)**	**(1,252)**	**(42)**	**-**	**23,196**	**(22,940)**	**256**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

USD interest Sensitivity Gap		Up to 1 month	1-6 months	6-12 months	1-2 Years	2-5 Years	More than 5 Years	Total interest sensitive	Not interest sensitive	Total
At 31 December 2022										
Assets										
Cash on hand		-	-	-	-	-	-	-	1,394	1,394
Balances with Central Banks		-	-	-	-	-	-	-	-	-
Current accounts with banks		8,779	-	-	-	-	-	8,779	-	8,779
T-bills and marketable securities	Fixed	7,359	8,731	1,299	1,527	-	-	18,916	(236)	18,680
	Variable	-	-	-	-	-	-	-	-	-
Term deposits with banks		2,814	-	-	-	-	-	2,814	-	2,814
Loans and advances to customers	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Offbalance sheet items		75	-	-	-	-	-	75	-	75
Total assets		**19,027**	**8,731**	**1,299**	**1,527**	**-**	**-**	**30,584**	**1,158**	**31,742**
Liabilities										
Current accounts from banks		-	-	-	-	-	-	-	1	1
Current accounts from customers		286	959	2,204	1,150	-	-	4,599	26,753	31,352
Deposits from customers		2	-	10	96	-	-	108	-	108
Borrowings and subordinated debt	Fixed	-	-	-	-	-	-	-	-	-
	Variable	-	-	-	-	-	-	-	-	-
Total liabilities		**288**	**959**	**2,214**	**1,246**	**-**	**-**	**4,707**	**26,754**	**31,461**
IR sensitivity gap- open position		**18,739**	**7,772**	**(915)**	**281**	**-**	**-**	**25,877**	**-**	**281**

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

5. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The analysis and calculations are done to quantify the effect on the interest rate movements on economic value of capital and interest earning capacities over a certain period of time, and consequently to mitigate risks which have an impact on these two parameters. Considering denominated asset and liability structures as at 31 December 2023 and 2022, and assuming a parallel shift of interest rate for +/-200bp for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates (while ensuring a minimum shock of +/- 200 basis point is applied), the Bank's interest rate risk profile is presented below, where negative figures represent losses to profit or loss and decrease of net equity:

+/- parallel shift of the yield curves	**12 month P&L – Effect (parallel down)**		**Economic Value impact (parallel up)**	
Assets and Liabilities in:	2023	2022	2023	2022
EUR	**(7,522)**	**(4,758)**	**(6,265)**	**(6,379)**

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty may cause a financial loss for the Bank by failing to fulfil an obligation. Credit risk is pervasive to the Bank's business; therefore, management carefully manages its exposure to such risk. Credit exposures arise principally in lending activities that result in loans and advances to customers, as well as investment activities that involve 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 Department, while the interbank risk for placements and debt securities are concentrated in the Treasury Unit and Risk Monitoring Department. All departments responsible for credit risk management and control, report to the Management Board and to the Board of Directors, regularly.

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(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 maximum exposure to credit risk on 31 December 2023 and 2022 without taking account of any collateral held or other credit enhancements. 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 2023		31 December 2022	
	Carrying amount	Amount committed/ guaranteed	Carrying amount	Amount committed/ guaranteed
Balances with Central Banks	113,462	-	203,315	-
Loans and advances to banks	23,288	-	25,032	-
Loans and advances to customers	729,774	-	655,971	-
Investment securities measured at FVOCI	124,418	-	63,913	-
Other financial assets	2,913	-	2,457	-
Lending commitments and guarantees	-	136,852	-	128,377
Total	**993,855**	**136,852**	**950,688**	**128,377**
Credit commitments		85,101		84,386
Financial guarantees		37,523		32,650
Non-financial guarantees		12,654		10,571
Letters of Credit		1,574		770
		136,852		**128,377**
Provisions recognised as liabilities		(916)		(723)
Total		**135,936**		**127,654**

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.

31 December 2023	Fitch Rating	Cash balances with central banks, including mandatory reserves	Kosovo Government securities with maturities less than 3 months	Total
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		7,183	-	7,183
- Mandatory reserve		50,714	-	50,714
Government securities of the Republic of Kosovo	Not rated	-	6,025	6,025
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	55,565	-	55,565
Total cash and cash equivalents, excluding cash on hand		**113,462**	**6,025**	**119,487**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

31 December 2022	**Fitch Rating**	**Cash balances with central banks, including mandatory reserves**	**Kosovo Government securities with maturities less than 3 months**	**Total**
Neither past due nor impaired				
Central Bank of the Republic of Kosovo	Not rated			
- Current accounts		129,690	-	29,690
- Mandatory reserve		50,351	-	50,351
Government securities of the Republic of Kosovo	Not rated	-	5,057	5,057
Central Bank of the Republic of Germany (Deutsche Bundesbank)	AAA	123,274	-	123,274
Total cash and cash equivalents, excluding cash on hand		**203,315**	**5,057**	**208,372**

Loans and advances to banks

Interbank exposures are closely monitored on a daily basis by Risk Monitoring Department 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, Risk Monitoring Department carry out an analysis of the institution's financial standing. The financial performance of the counterparties is continuously monitored. Moreover, all correspondent banks as well as bond issuers in which the Bank has investment exposures are continuously monitored for their ratings by international rating agencies like: Standard & Poor's (S&P), Fitch and Moody's. A function independent from the Treasury Unit, Risk Monitoring Department, monitors that the exposure toward all banks does not exceed regulatory limits or internal limits set by the management of the Bank.

In accordance with the 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 and the Financial and Market Risk Management Committee 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 2023	**31 December 2022**
Neither past due nor impaired		
AA+ to AA- rating	8,924	15,222
A+ to A- rating	12,466	8,301
BBB+ to B- rating	1,898	1,509
Total due from other banks	**23,288**	**25,032**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers

As of 31 December 2023	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	154,077	567,834	721,911
Loss allowance for loans to customers	(3,829)	(5,672)	(9,501)
Net outstanding amount	150,248	562,162	712,410
Stage 2			
Gross outstanding amount	4,732	12,143	16,875
Loss allowance for loans to customers	(166)	(2,357)	(2,523)
Net outstanding amount	4,566	9,786	14,352
Stage 3			
Gross outstanding amount	1,124	7,806	8,930
Loss allowance for loans to customers	(762)	(5,452)	(6,214)
Net outstanding amount	362	2,354	2,716
POCI			
Gross outstanding amount	20	682	702
Loss allowance for loans to customers	(20)	(386)	(406)
Net outstanding amount	-	296	296
Total Gross outstanding amount	159,953	588,465	748,418
Total Loss allowance for loans to customers	(4,777)	(13,867)	(18,644)
Total Net outstanding amount	**155,176**	**574,598**	**729,774**

As of 31 December 2022	Private loans	Business Loans	Total
Stage 1			
Gross outstanding amount	137,228	508,942	646,170
Loss allowance for loans to customers	(3,882)	(5,038)	(8,920)
Net outstanding amount	133,346	503,904	637,250
Stage 2			
Gross outstanding amount	4,348	10,567	14,915
Loss allowance for loans to customers	(212)	(1,341)	(1,553)
Net outstanding amount	4,136	9,226	13,362
Stage 3			
Gross outstanding amount	1,511	11,591	13,102
Loss allowance for loans to customers	(971)	(7,079)	(8,050)
Net outstanding amount	540	4,512	5,052
POCI			
Gross outstanding amount	32	636	668
Loss allowance for loans to customers	(32)	(329)	(361)
Net outstanding amount	-	307	307
Total Gross outstanding amount	143,119	531,736	674,855
Total Loss allowance for loans to customers	(5,097)	(13,787)	(18,884)
Total Net outstanding amount	**138,022**	**517,949**	**655,971**

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning

Loss allowances

The bank establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for investment securities recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI) and contingent liabilities. A three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, discretionary decisions are made when determining the probability of occurrence for various scenarios.
The bank sets aside loss allowances for the balance sheet items "Central bank balances", "Loans and advances to banks", "Loans and advances to customers", "Investment securities" and for the financial assets under "Other assets" and for off-balance sheet transactions. These are generally recognised at net value within the corresponding balance sheet position, off-balance sheet transactions. The loss allowances for "Investment securities at FVOCI" are recognised directly in shareholders' equity under "Revaluation reserve". Loss allowances for off-balance sheet transactions are reported under the balance sheet position "Provisions".

The bank uses expected credit losses model which requires recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current, and forecasted information. This model outlines three stages based on changes in the exposure's credit risk since the date of initial recognition.

- Stage 1: All financial assets are allocated to "Stage 1" upon recognition, with the exception of those categorised as POCI (Purchase or Originated Credit Impaired). The bank establishes loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Impaired financial assets are classified as "Stage 3" and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined individually on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (net of loss allowances). Financial assets which are purchased or originated credit-impaired at initial recognition (POCI) are reported as part of the impaired exposures. These financial assets are initially recognised at fair value and thus no loss allowances are established. In subsequent periods improvement/deterioration in credit quality gives rise to an impairment gain/loss.

A non-substantial modification exists if a financial asset is modified without derecognition. The modification gain or loss is recognised in "Change in loss allowances". The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Loans and advances to customers (continued)

Impairment and provisioning (continued)

Loss allowances (continued)

Migration between the stages is possible in both directions (except for POCI), provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reduced.

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

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when it is determined that the loans are uncollectible. This determination is reached after assessing information such as significant changes in the borrower financial position indicating an inability to meet the obligations towards the Bank, or the assessment that proceeds from collateral will not be sufficient to pay back the entire exposure.

Recoveries of amounts previously written off

When a loan is uncollectible, it is written off against the related loss allowance which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts which have been written off are recognised in the Statement of Profit or Loss under "Loss allowances".

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

5. Financial risk management (continued)

(b) Credit risk (continued)

(i) Analysis of credit quality (continued)

Investments securities measured through FVOCI

Investments in debt securities are with sovereign issuers, central banks and other supranational borrowers rated as AA- or higher by Fitch, S&P or Moody's. Exposure to debt securities is managed by the Treasury Policy. Investments are allowed only in liquid securities that have high credit ratings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

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

31 December 2023	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	107,992	107,992
- Unrated (at Government or Country level)	16,426	-	16,426
Total Investment securities measured through FVOCI	**16,426**	**107,992**	**124,418**

31 December 2022	Kosovo Government bonds	OECD Government bonds	Total
Neither past due nor impaired			
- AAA rated	-	39,271	39,271
- Unrated (at Government or Country level)	24,642	-	24,642
Total Investment securities measured through FVOCI	**24,642**	**39,271**	**63,913**

Lending commitments and financial guarantees

The maximum exposure from financial guarantees represents the maximum amount the Bank would be liable to pay if the guarantee were to be invoked, potentially surpassing the amount recognized as a liability by a considerable margin. The maximum credit exposure for lending commitments is the full amount of the commitment.

(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.

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

5. Financial risk management (continued)

(b) Credit risk (continued)

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

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 immovable properties (residential, commercial, industrial, vacant land etc.);
- Pledge over movable properties, such as: machinery, equipment, vehicles, etc.; and
- Charges over cash and cash equivalents (cash collateral).

Credit facilities extended to corporate entities and individuals are typically 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 may request additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The financial impact 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 2023	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	269,744	712,373	304,854	214,787
Private	51,810	111,015	103,366	42,057
Total	**321,554**	**823,388**	**408,220**	**256,844**

	Over-collateralised		Under-collateralised	
At 31 December 2022	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Business	318,849	786,666	199,101	134,294
Private	44,037	99,172	93,984	37,764
Total	**362,886**	**885,838**	**293,085**	**172,058**

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.

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

5. Financial risk management (continued)

(b) Credit risk (continued)

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

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, activities in the same geographical region, or activities that 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 these developments.

Geographical sectors

The following table breaks down the Bank's main credit exposure at their net amount, as categorised by geographical region as of 31 December 2023 and 2022. The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

		2023			2022	
	OECD countries	Kosovo	Total	OECD countries	Kosovo	Total
Assets						
Balances with Central Banks	55,565	57,897	113,462	123,274	80,041	203,315
Loans and advances to banks	23,288	-	23,288	25,032	-	25,032
Loans and advances to customers	4,013	725,761	729,774	2,322	653,649	655,971
Investment securities FVOCI	107,992	16,426	124,418	39,272	24,641	63,913
Other financial assets	-	2,913	2,913	-	2,457	2,457
Total assets	**190,858**	**802,997**	**993,855**	**189,900**	**760,788**	**950,688**

Client type

The following table breaks down the Bank's main credit exposure at their net amount, as categorised by client type as of 31 December 2023 and 2022

		2023			2022	
	Private	Business	Total	Private	Business	Total
Assets						
Balances with Central Banks	-	113,462	113,462	-	203,315	203,315
Loans and advances to banks	-	23,288	23,288	-	25,032	25,032
Loans and advances to customers	155,176	574,598	729,774	138,021	517,950	655,971
Investment securities FVOCI	-	124,418	124,418	-	63,913	63,913
Other financial assets	-	2,913	2,913	-	2,457	2,457
Total assets	**155,176**	**838,679**	**993,855**	**138,021**	**812,667**	**950,688**

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

5. Financial risk management (continued)

(c) Liquidity risk and Funding risk

Liquidity and funding risk addresses the Bank's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

Liquidity risk
Bank assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and monitors this risk using numerous indicators. These include a 30-day liquidity indicator known as Sufficient Liquidity Indicator (SLI), a survival period, and the liquidity coverage ratio stipulated by CRR (Liquidity Coverage Ratio, LCR) as well as Regulatory regulation enforced since January 2023) The SLI measures whether the bank has sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the bank is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements from the bank. LCR indicates whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. Furthermore, the bank continues to monitor the local liquidity indicator, which assesses liquid assets against short-term liabilities, as stipulated by previous regulations governing liquidity risk management set forth by the Regulator.
Market-wide, institution-specific (idiosyncratic) and combined stress tests are conducted monthly and ad hoc. Bank should keep sufficient liquid funds to meet its obligations, even in difficult times. Moreover, bank has a contingency plan. If unexpected circumstances arise and bank proves not to have sufficient liquid funds, ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.
Liquidity is managed on a daily basis by the Treasury Unit and is monitored by Risk Monitoring Department and ALCO as well. Short-term liquidity risk is measured particularly by means of regulatory LCR. As of 31 December 2023, the regulatory LCR was 210%, thus above the regulatory requirement of 100% and bank's internally defined early warning threshold. This indicates an appropriate liquidity situation for the bank.
Overall, the bank maintained a satisfactory liquidity position throughout 2023, enabling it to meet all financial obligations promptly.
The figures reported on the Liquidity gap table 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.

The Liquidity gap 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's objective is to maintain a consistently positive expected cumulative maturity gap. If this gap were to become negative rather than positive, the Bank identifies this as a "watch liquidity position," indicating a need for closer monitoring of liquidity levels.

PROCREDIT BANK SH.A.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

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

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

As at 31 December 2023	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	79,290	-	-	-	-	79,290
Reserves with the Central Bank	50,750	-	-	-	-	50,750
Current accounts with Central Banks	62,748	-	-	-	-	62,748
Current accounts with banks	4,216	240	1,505	2,260	1,487	9,708
T-bills and marketable securities	29,693	37,866	24,447	18,664	13,052	123,722
Assets 1-S						
Term deposits with banks	4,018	10,500	-	-	-	14,518
Loans and advances to customers	29,823	56,862	97,228	198,897	439,768	822,578
Total Assets	**260,538**	**105,468**	**123,180**	**219,821**	**454,307**	**1,163,314**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	1309	-	-	-	-	1,309
Liabilities to customers (due daily)	723,745	-	-	-	-	723,745
Contingent liabilities from guarantees	51,751	-	-	-	-	51,751
Unused credit commitments	84,988	-	-	-	-	84,988
Liabilities 1-S						
Liabilities to customers	6,550	7,632	16,319	93,426	91,025	214,953
Borrowings and subordinated debt	3,002	444	2,718	4,489	18,951	29,603
Total Contractual Liabilities	**871,345**	**8,076**	**19,037**	**97,915**	**109,976**	**1,106,349**
Periodic Contractual Liquidity Gap	**(610,807)**	**97,392**	**104,143**	**121,906**	**344,331**	**56,965**
Cumulative Contractual Liquidity Gap	**(610,807)**	**(513,415)**	**(409,272)**	**(287,366)**	**56,965**	-
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	918	-	-	-	-	918
Liabilities to customers (due daily)	8,821	-	-	-	-	8,821
Contingent liabilities from guarantees	2,588	-	-	-	-	2,588
Unused credit commitments	22	-	-	-	-	22
Liabilities 1-S						
Liabilities to customers	51,786	26,731	8,910	96,183	739,739	923,349
Borrowings and subordinated debt	2,976	393	-	2,143	21,143	26,655
Total Expected Liabilities	**67,111**	**27,124**	**8,910**	**98,326**	**760,882**	**962,353**
Periodic Expected Liquidity Gap	**193,427**	**78,344**	**114,270**	**121,495**	**(306,575)**	**200,961**
Cumulative Expected Liquidity Gap	**193,427**	**271,771**	**386,041**	**507,536**	**200,961**	-

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

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

As at 31 December 2022	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	> 1 year	Total
Assets 1						
Cash on hand	64,236	-	-	-	-	64,236
Reserves with the Central Bank	50,388	-	-	-	-	50,388
Current accounts with Central Banks	152,964	-	-	-	-	152,964
Current accounts with banks	9,886	860	2,650	2,021	911	16,328
T-bills and marketable securities	972	18,209	1,976	3,415	39,342	63,914
Assets 1-S						
Term deposits with banks	2,820	6,510	-	-	-	9,330
Loans and advances to customers	22,957	58,768	88,621	171,545	398,339	740,230
Total Assets	**304,223**	**84,347**	**93,247**	**176,981**	**438,592**	**1,097,390**
Contractual Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	382	-	-	-	-	382
Liabilities to customers (due daily)	715,637	-	-	-	-	715,637
Contingent liabilities from guarantees	43,991	-	-	-	-	43,991
Unused credit commitments	84,280	-	-	-	-	84,280
Liabilities 1-S						
Liabilities to customers	3,119	4,427	8,904	28,126	74,415	118,991
Borrowings and subordinated debt	2,976	736	2,343	6,116	23,028	35,199
Total Contractual Liabilities	**850,385**	**5,163**	**11,247**	**34,242**	**97,443**	**998,480**
Periodic Contractual Liquidity Gap	**(546,162)**	**79,184**	**82,000**	**142,739**	**341,149**	**98,910**
Cumulative Contractual Liquidity Gap	**(546,162)**	**(466,978)**	**(384,978)**	**(242,239)**	**98,910**	**-**
Expected Liabilities						
Liabilities 1						
Liabilities to banks (due daily)	189	-	-	-	-	189
Liabilities to customers (due daily)	3,728	-	850	26,000	28,040	58,618
Contingent liabilities from guarantees	2,200	-	-	-	-	2,200
Unused credit commitments	8,428	-	-	-	-	8,428
Liabilities 1-S						
Liabilities to customers	3,119	4,427	8,904	28,126	74,415	118,991
Borrowings and subordinated debt	2,976	736	2,343	6,116	23,028	35,199
Total Expected Liabilities	**20,640**	**5,163**	**12,097**	**60,242**	**125,483**	**223,625**
Periodic Expected Liquidity Gap	**283,583**	**79,184**	**81,150**	**116,739**	**313,109**	**873,765**
Cumulative Expected Liquidity Gap	**283,583**	**362,767**	**443,917**	**560,656**	**873,765**	**-**

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

5. Financial risk management (continued)

(c) Liquidity and funding risk (continued)

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

The Bank is maintaining a portfolio of highly marketable financial assets (Investment Securities measured at FVOCI) that can easily be liquidated as protection against any unforeseen events 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 2023, the Bank applied liquidity stress testing on a monthly basis for all operating currencies and discussed it regularly in the Bank's Financial and Market Risk Management Committee and ALCO. The stress test is performed applying four different scenarios as per Liquidity Risk Management policy, starting from less to more conservative scenarios. In case the Management Board and Risk Monitoring Department see any concerns under these scenarios, the Bank takes the necessary measures to minimise any risk.

Funding risk

Funding risk is the risk that additional funding cannot be obtained or can only be obtained at higher costs. This risk is mitigated by the fact that bank finances its lending operations primarily through deposits; its deposit-taking operations focus on its target group of business clients and private clients/savers. These are supplemented by loans from international financial institutions (IFIs). The funding of the bank has proven to be resilient. As of the end of December 2023, deposits stood as the predominant funding source, representing 96% of the total.

Bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. This includes the structural liquidity ratio (net stable funding ratio, NSFR). As of 31 December 2023, the regulatory NSFR was 154% (entered into force since January 2023).

The funding needs of the banks, identified in the business planning process, are monitored and regularly reviewed at bank and group level. A key indicator for limiting funding risk is the deposit concentration indicator. In addition, funding via the interbank market is limited by two indicators (share of interbank liabilities and overnight liabilities within total liabilities).

(d) Capital management

Capital management within the bank is governed by the fundamental principle that the bank should not assume risks beyond its capacity to manage. In this context, the bank is oriented towards achieving the following objectives:

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the bank is able to act
- Implementing the plans for sustainable growth

The principle of capital adequacy is monitored using different indicators for which early warning indicators and limits have been established.

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

5. Financial risk management (continued)

(d) Capital management (continued)

Capitalisation in the normative perspective

Capital adequacy and the use of regulatory capital are monitored on a monthly basis by Bank's management, employing techniques based on the guidelines of the CBK. The required information is provided to the CBK on a regular monthly basis. The risk-weighted assets (RWA) are classified according to the class categories that the assets are assigned to. The category of classes in itself reflects the nature and estimation 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 at or above the minimum of 9% (Actual 14.64%; 2022: 13.21%) and to maintain a total regulatory capital, to risk-weighted assets at or above the minimum 12% (Actual 16.79%; 2022:15.48%) Therefore, based on the respective ratios, the bank was in compliance with the capital adequacy requirements as at the reporting dates, at 31 December 2023 and 2022.

As at 31 December 2023 and 2022 the Bank's capital adequacy ratios measured in accordance with the CBK rules are as follows:

	2023	2022
Tier 1 capital		
Share capital and share premium	65,550	65,550
Reserves	6,749	6,680
Retained earnings	46,045	23,731
less: Intangible assets	(52)	(39)
less: Credits to bank related persons	(4,720)	(4,716)
less: Deferred tax assets	(166)	(125)
Total qualifying Tier 1 capital	**113,406**	**91,081**
Tier 2 capital		
Subordinated liability	7,500	7,500
Provisions for loan losses (limited to 1.25% of RWA)	9,177	8,142
Total qualifying Tier 2 capital	**16,677**	**15,642**
Total regulatory capital	**130,083**	**106,723**
Risk-weighted assets:	693,112	615, 467
On-balance sheet	41,053	35,866
Off-balance sheet	40,678	38,211
Risk assets for operational risk		
Total risk-weighted assets	**774,843**	**689,544**
Tier I capital adequacy ratio	**14.64%**	**13.21%**
Total capital adequacy ratio	**16.79%**	**15.48%**

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

5. Financial risk management (continued)

Capitalisation in the economic perspective

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of economic capital to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses. The included material risks and the limits set for each risk reflect the specific risk profile of the bank and are based on the annually conducted risk inventory. The following concepts were used to calculate potential losses in the different material risk categories:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 99% confidence level) are applied to the loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation (after adjustment).
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the economic value impact of a standard interest rate shock of 200 basis points up and down for the yield curves that reflect the interest rate environment on international markets and for the local currency ,as well as for EUR and USD, a parallel up and down that reflects the local specifics of the market rates is determined, while ensuring a minimum shock of +- 200 basis point is applied.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

The Bank showed a modest level of utilization of its Resources Available to Cover Risk (RAtCR) as of 31 December 2023. 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 2023 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 80% of the Bank's total risk-taking potential.

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

6. Fair values of financial instruments

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

a) Valuation models

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

Level 1 Inputs:

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Inputs:

Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied refer to the current fair value of similar instruments and valuation techniques using observable market parameters.

Level 3 Inputs:

Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based on management judgment or estimation and cannot be supported by reference to market activity.

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. 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.

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

6. Fair values of financial instruments (continued)

a) Valuation models (continued)

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

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

b) Financial instruments measured at fair value

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

Investment securities measured at FVOCI	Total Fair Value	Level 1	Level 2	Level 3
31 December 2023	**124,418**	**107,992**	**16,426**	-
Bonds	124,418	107,992	16,426	-
31 December 2022	**63,913**	**39,271**	**24,642**	-
Bonds	63,913	39,271	24,642	-

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

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

				Fair value hierarchy		
As of 31 December 2023	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	192,752	192,752	-	192,752	-
Loans and advances to banks	AC	23,288	22,535	-	4,171	18,364
Loans and advances to customers	AC	729,774	724,047	-	-	724,047
Investment securities	FVOCI	124,418	124,418	107,992	16,426	-
Other assets (shares)	FVOCI	52	52	-	52	-
Other financial assets	AC	2,913	2,913	-	2,913	-
Total		**1,073,197**	**1,066,717**	**107,992**	**216,314**	**742,411**
Financial Liabilities						
Liabilities to banks	AC	1,066	1,066	-	1,066	-
Liabilities to Customers	AC	935,816	933,531	-	769,134	164,397
Borrowings	AC	19,151	18,423	-	-	18,423
Subordinated debts	AC	7,538	7,538	-	-	7,538
Other financial liabilities	AC	2,277	2,277	-	2,277	-
Total		**965,848**	**962,835**	-	**772,477**	**190,358**

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

6. Fair values of financial instruments (continued)

c) Financial instruments not measured at fair value for which fair value is disclosed (continued)

				Fair value hierarchy		
As of 31 December 2022	**Category**	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Cash and balances with Central Banks	AC	267,551	267,551	-	267,551	-
Loans and advances to banks	AC	25,032	25,032	-	25,032	-
Loans and advances to customers	AC	655,971	647,895	-	-	647,895
Investment securities	FVOCI	63,913	63,913	39,271	24,641	-
Other assets (shares)	FVOCI	49	49	-	49	-
Other financial assets	AC	2,457	2,457	-	2,457	-
Total		**1,014,973**	**1,006,897**	**39,271**	**319,730**	**647,895**
Financial Liabilities						
Liabilities to banks	AC	631	631	-	631	-
Liabilities to Customers	AC	895,652	893,569	-	747,215	146,354
Borrowings	AC	25,905	25,323	-	-	25,323
Subordinated debts	AC	7,538	7,538	-	-	7,538
Other financial liabilities	AC	1,690	1,690	-	1,690	-
Total		**931,416**	**928,751**	**-**	**749,536**	**179,215**

* Categories: AC - Amortised cost; FVOCI - fair value through other comprehensive income

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

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

The fair value of borrowings and subordinated debt is based on discounted contractual cash flows, taking into consideration market interest rates, which would have been payable by the Bank in need of replacing the old sources with the new ones of equal remaining maturity.

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

7. Net interest income

	2023	2022
Interest income		
Loans and advances to customers	38,207	32,574
Loans and advances to banks	873	166
Investment securities measured at FVOCI	3,076	806
Other	19	21
Total interest income	**42,175**	**33,567**
Interest expense		
Liabilities to customers	3,777	1,544
Borrowed funds	946	837
Other	212	546
Total interest expense	**4,935**	**2,927**
Net interest income	**37,240**	**30,640**

Interest income and expenses are recognised in Statement of profit or loss on an accrual basis. Net interest Income is calculated on the gross book value of a financial asset; for financial assets in Stage 3, net interest income is calculated on the net book value of a financial asset. Payments received in respect of written-off loans are not recognised in the net interest income, but rather under ''Loss allowance''.

8. Net fee and commission income

	2023	2022
Fee and commission income from		
Payment services	4,832	4,703
Debit/Credit cards	4,256	3,692
Account maintenance fee	4,159	4,466
Letters of credit and guarantees	997	793
Others	389	537
Total fee and commission income	**14,633**	**14,191**
Fee and commission expense on		
Transactions related to processing centre and other financial services	1,784	1,692
Account maintenance fee	45	217
Other fees to banks	1,328	1,119
Fees and expenses related to cards	636	934
Third- party transactions	3,178	2,735
Other fees	314	222
Total fee and commission expense	**7,285**	**6,919**
Net fee and commission income	**7,348**	**7,272**

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

9. Net other operating result

	2023	2022
Other operating income from		
Reversal of provisions	221	403
Reimbursement of expenses	32	30
Sale of property plant and equipment	37	87
Others	482	267
Other operating income	**772**	**787**
Other operating expenses for		
Deposit insurance	730	734
Disposal of property, plant and equipment	364	23
Credit Recovery Services	395	399
Others	1,270	977
Other operating expense	**2,759**	**2,133**
Net other operating result	**(1,987)**	**(1,346)**

10. Personnel expenses

	2023	2022
Salary expenses	6,056	5,015
Pension contribution	307	248
Other employee costs	467	358
Total	**6,830**	**5,621**

On 31 December 2023, the Bank had 347 employees (2022: 308 employees).

11. Administrative expenses

	2023	2022
Repairs and maintenance	4,513	3,695
Depreciation fixed and intangible assets	2,103	1,613
Consulting, legal and other fees	1,936	1,492
Expenses paid to ProCredit Holding	1,160	1,054
Security services	1,140	1,109
Marketing, advertising and representation	729	907
Training	611	453
Royalties on software	373	341
Transport (fuel, maintenance)	361	262
Communication (telephone, on-line connection)	329	284
Utilities	307	247
Office supplies	191	174
Lease expenses	40	47
Other expenses	1,188	1,156
Total	**14,981**	**12,834**

Lease expenses mainly include short – term leases to which the exemptions established in IFRS 16 are applied.

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

12. Loss allowance

	2023	2022
Change in loss allowances	(982)	(1,376)
Recovery of written-off loans	3,514	4,578
Total	**2,532**	**3,202**

13. Income taxes

Amounts recognised in profit or loss

	2023	2022
Current tax expenses	2,548	2,073
Deferred tax income/ expense	(49)	13
Previous year's tax expenses	(3)	-
Income tax expense	**2,496**	**2,086**

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% (2022: 10%).

Amounts recognised in Other Comprehensive Income ('OCI')

	2023			2022		
	Before tax	Tax charge	Net of tax	Before tax	Tax charge	Net of tax
Investment securities measured at FVOCI	(78)	9	(69)	342	(34)	308
Total	**(78)**	**9**	**(69)**	**342**	**(34)**	**308**

Reconciliation of effective tax rate

The following is a reconciliation of income taxes calculated at the applicable tax rate of 10% (2022: 10%) to current income tax expense:

	2023	2022
Profit before tax	24,809	22,740
Tax using the corporate tax rate	2,481	2,274
Exempt income	(134)	(92)
Non-deductible expenses	318	159
Deduction for sponsorship contributions	(120)	(268)
Deferred tax (income) / expense	(49)	13
Income tax expense	**2,496**	**2,086**

Prepaid income tax assets on 31 December 2023 is EUR 0 (31 December 2022: EUR 310 thousand).
On the other hand, Current income tax liabilities on 31 December 2023 is EUR 452 thousand (31 December 2022: EUR 0).

Movement in deferred tax balances

Deferred tax is calculated based on the enacted tax rate of 10% (2022: 10%).

	31 December 2023	Profit or loss	OCI	31 December 2022
Deferred tax assets				
Accrued interest on deposits	103	62	-	40
Depreciation for property and equipment	35	(25)	-	60
	138	37	-	**100**
Deferred tax liabilities				
Investment securities measured at FVOCI	16	-	(9)	25
Right-of-use asset	12	12	-	-
	28	**12**	**(9)**	**25**
Net deferred tax assets/(liabilities)	**166**	**49**	**(9)**	**125**

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

14. Cash and balances with Central Banks

	2023	2022
Cash on hand	79,290	64,236
Amounts held at the CBK		
Current accounts	7,183	29,689
Statutory reserves	50,750	50,388
Balance with Deutche Bundesbank	55,565	123,274
Loss allowance	(36)	(36)
	192,752	**267,551**

Movement in impairment for the years ended December 31, 2023 and 2022, charged to profit or loss is as following:

	2023	2022
Loss allowances as of 01 January	36	37
Increase/Decrease in credit risk	-	(1)
Closing balance	**36**	**36**

In accordance with CBK regulation on Minimum reserve requirement, the bank should maintain the minimum required reserve ratio 10 % 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 2023 and 2022 are presented as follows in statement of cash flows:

	2023	2022
Cash and balances with Central Banks	192,752	267,551
Statutory reserves	(50,750)	(50,388)
Loans and advances to banks with maturities of 3 months or less	18,943	19,156
Total	**160,945**	**236,319**

15. Loans and advances to banks

	2023	2022
Current accounts	8,800	15,717
Time deposits with banks	14,488	9,316
Loss allowance	(0)	(1)
Total	**23,288**	**25,032**

Movement in impairment for the years ended December 31, 2023 and 2022, charged to profit or loss is as following:

	2023	2022
Loss allowances as of 01 January	1	1
New financial assets originated	0	1
Release due to derecognition	(1)	(1)
Increase/Decrease in credit risk	-	-
Closing balance	**0**	**1**

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

- Deposits in EUR: from 1.10% p.a. to 3.90% p.a. (2022: from: 1.10% p.a. to 1.77% p.a.); and
- Deposits in USD: from 3.00% p.a. to 5.10% p.a. (2022: from 4.10% p.a. to 4.29% p.a.).

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

16. Loans and advances to customers

	2023	2022
Loans to customers	701,194	635,853
Overdrafts	47,120	38,914
Credit cards receivable	104	88
	748,418	**674,855**
Loss allowance	(18,644)	(18,884)
	729,774	655,971

The movement on loans to customers and provision for impairment on loans to customers for the year ended December 31, 2023, and December 31, 2022 based on IFRS 9 requirements, is as follows:

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as of 1 January	**646,170**	**14,915**	**13,102**	**668**	**674,855**
New financial assets originated	316,799	-	-	-	316,799
Modification of contractual cash flows of financial assets	17	(1)	(29)	-	(13)
Derecognitions	(80,502)	(3,914)	(1,958)	-	(86,374)
Write-offs	-	-	(1,569)	(9)	(1,578)
Changes in interest accrual	157	(3)	152	24	330
Changes in the principal and disbursement fee amount	(146,805)	(6,550)	(2,294)	19	(155,630)
Transfers to Stage 1	10,142	(9,797)	(345)	-	-
Transfers to Stage 2	(23,907)	24,595	(688)	-	-
Transfers to Stage 3	(108)	(2,400)	2,508	-	-
Foreign exchange and other movements	(52)	30	51	-	29
Gross outstanding amount as of 31.12.2023	**721,911**	**16,875**	**8,930**	**702**	**748,418**

Loss allowance loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January	**(8,920)**	**(1,553)**	**(8,050)**	**(361)**	**(18,884)**
New financial assets originated	(4,701)	-	-	-	(4,701)
Release due to derecognition	631	173	1,221	-	2,025
Transfers to Stage 1	(164)	151	13	-	-
Transfers to Stage 2	973	(1,169)	196	-	-
Transfers to Stage 3	4	225	(229)	-	-
Increase in PD/LGD/EaD	(4,264)	(2,447)	(4,737)	(92)	(11,540)
Decrease in PD/LGD/EaD	6,940	2,101	3,806	38	12,885
Usage of allowance	-	-	1,569	9	1,578
Foreign exchange and other movements	-	(4)	(3)	-	(7)
Loss allowances as of 31.12.2023	**(9,501)**	**(2,523)**	**(6,214)**	**(406)**	**(18,644)**

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

16. Loans and advances to customers (continued)

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January	**557,336**	**19,389**	**12,617**	**777**	**590,119**
New financial assets originated	292,363	-	-	-	292,363
Modification of contractual cash flows of financial assets	-	-	-	-	-
Derecognitions	(67,272)	(3,395)	(1,169)	-	(71,836)
Write-offs	-	-	(1,739)	(139)	(1,878)
Changes in interest accrual	16	(24)	118	26	137
Changes in the principal and disbursement fee amount	(124,734)	(6,053)	(3,428)	4	(134,211)
Transfers to Stage 1	12,942	(12,409)	(533)	-	-
Transfers to Stage 2	(23,238)	23,587	(349)	-	-
Transfers to Stage 3	(1,313)	(6,180)	7,493	-	-
Foreign exchange and other movements	70	-	92	-	162
Gross outstanding amount as of 31.12.2022	**646,170**	**14,915**	**13,102**	**668**	**674,855**

Loss allowance loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	**(6,967)**	**(3,183)**	**(8,196)**	**(439)**	**(18,785)**
New financial assets originated	(3,768)	-	-	-	(3,768)
Release due to derecognition	461	105	695	-	1,261
Transfers to Stage 1	(493)	479	14	-	-
Transfers to Stage 2	536	(587)	51	-	-
Transfers to Stage 3	129	1,008	(1,137)	-	-
Increase in PD/LGD/EaD	(5,044)	(1,876)	(4,713)	(74)	(11,707)
Decrease in PD/LGD/EaD	6,226	2,501	3,528	13	12,268
Usage of allowance	-	-	1,739	139	1,878
Foreign exchange and other movements	-	-	(31)	-	(31)
Loss allowances as of 31.12.2022	**(8,920)**	**(1,553)**	**(8,050)**	**(361)**	**(18,884)**

	2023			2022		
	Gross amount	Loss allowance	Net amount	Gross amount	Loss allowance	Net amount
Business loans:						
Overdrafts	45,366	(429)	44,937	36,982	(686)	36,296
Up to EUR 150 thousand	166,694	(5,502)	161,192	156,639	(6,498)	150,141
Above EUR 150 thousand	376,405	(7,936)	368,469	338,115	(6,602)	331,513
Private loans:						
Housing	120,855	(2,852)	118,003	107,847	(3,066)	104,781
Investment loans	37,240	(1,774)	35,466	33,253	(1,874)	31,379
Consumer loans	1,858	(151)	1,707	2,019	(158)	1,861
Total	**748,418**	**(18,644)**	**729,774**	**674,855**	**(18,884)**	**655,971**

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

17. Investment securities measured at FVOCI

	2023	2022
Investment securities measured at FVOCI	124,418	63,928
Loss allowance	(7)	(15)
Total	**124,411**	**63,913**

Movement in impairment for the years ended December 31, 2023 and 2022, charged to profit or loss is as following:

	2023	2022
Loss allowances as of 01 January	15	21
New financial assets originated	1	1
Release due to derecognition	(2)	(3)
Increase/Decrease in credit risk	(7)	(4)
Closing balance	**7**	**15**

18. Intangible assets

	Software
Cost	
At January 2023	7,311
Additions	35
Disposals	-
At 31 December 2023	**7,346**
Accumulated amortization	
At 1 January 2023	7,272
Charge for the year	22
Disposals	-
At 31 December 2023	**7,294**
Net book value	**52**

Cost	
At January 2022	7,299
Additions	12
Disposals	-
At 31 December 2022	**7,311**
Accumulated amortization	
At 1 January 2022	7,260
Charge for the year	12
Disposals	-
At 31 December 2022	**7,272**
Net book value	**39**

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

19. Property, plant and equipment

	Land and buildings	Business and office equipment	Land and buildings (ROU)	Total PPE
Total acquisition costs as of 1 January 2023	10,114	9,500	2,783	22,397
Additions	1,918	1,355	3,203	6,476
Disposals	(628)	(1,055)	(392)	(2,075)
Total acquisition costs as of 31 December 2023	**11,404**	**9,800**	**5,594**	**26,798**
Accumulated depreciation as of 1 January 2023	(1,818)	(6,964)	(570)	(9,352)
Depreciation	(309)	(1,213)	(561)	(2,083)
Disposals	270	1,043	381	1,694
Accumulated depreciation as of 31 December 2023	**(1,857)**	**(7,134)**	**(750)**	**(9,741)**
Net book value	**9,547**	**2,666**	**4,844**	**17,057**
Total acquisition costs as of 1 January 2022	10,035	9,284	2,017	21,336
Additions	143	1,477	1,559	3,179
Disposals	(64)	(1,261)	(793)	(2,118)
Total acquisition costs as of 31 December 2022	**10,114**	**9,500**	**2,783**	**22,397**
Accumulated depreciation as of 1 January 2022	(1,658)	(7,176)	(952)	(9,786)
Depreciation	(202)	(1,038)	(361)	(1,601)
Disposals	42	1,250	743	2,035
Accumulated depreciation as of 31 December 2022	**(1,818)**	**(6,964)**	**(570)**	**(9,352)**
Net book value	**8,296**	**2,536**	**2,213**	**13,045**

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

20. Other assets

	2023	2022
Year-end clearance accounts	1,660	596
Receivables from financial institutions	1,391	1,087
Security deposits	907	620
Prepaid expenses	653	294
Inventories and advances	461	221
Accrued account maintenance fees	183	195
Receivables from clients (Not related to lending)	97	334
Others	469	360
Loss allowance	(31)	(33)
Total	**5,790**	**3,674**

Movement in impairment for the years ended December 31, 2023 and 2022, charged to profit or loss is as following:

	2023	2022
Loss allowances as of 01 January	33	39
Increase/(Decrease) in credit risk	(2)	(6)
Closing balance	**31**	**33**

21 Liabilities to banks

	2023	2022
Current accounts	1,066	631
Total	**1,066**	**631**

22. Liabilities to customers

	2023	2022
Current accounts	581,131	550,518
Saving accounts	180,071	183,126
Term deposits	164,994	146,921
Other customer accounts	9,864	15,215
Total	**936,060**	**895,780**

The published annual interest rates at 31 December 2023 and 2022 were as follows:

	Private Customers		Business Customers	
	2023	2022	2023	2022
Saving accounts	0.15%	0.15%	0.15%	0.15%
Time deposits:				
- One year	0.15%	0.15%	n/a	n/a
- Two years	0.30%	0.30%	n/a	n/a
- Three years	0.50%	0.50%	n/a	n/a
- Four years	n/a	n/a	n/a	n/a
- Five years	n/a	n/a	n/a	n/a

Current accounts do not generally bear interest.

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

23. Other liabilities

	2023	2022
Lease liabilities	4,966	2,262
Liabilities for goods and services	1,222	899
Provision for litigation cases	901	808
Provisions for financial off-balance sheet items	773	723
Liabilities to related parties	720	502
Provision for untaken vacation	231	220
Accrued expenses	260	149
Provisions for non-financial off-balance sheet items	143	-
Pension contribution payable to Kosovo Pension Fund	72	65
Other	1,398	1,232
Total	**10,686**	**6,860**

24. Borrowings and subordinated debt

	2023	2022
European Bank for Reconstruction and Development (EBRD)	19,151	20,878
European Investment Bank (EIB)	-	2,013
Total	**19,151**	**22,891**

Outstanding amount includes accrued interest (actual EUR 158 thousand, 2022 EUR 136 thousand)

	2023	2022
Subordinated debt from ProCredit Holding AG	7,538	7,538
Total	**7,538**	**7,538**

Outstanding amount includes accrued interest (actual EUR 38 thousand, 2022 EUR 38 thousand)

The Bank signed an agreement in amount EUR 10,000 thousand with the European Investment Bank (EIB) on November 2013 to finance projects that are undertaken by small and medium sized enterprises. During 2023, the borrowing matured, and it was repaid.

The Bank signed the first agreement with European Bank for Reconstruction and Development (EBRD) in December 2018 for the Small & Medium-sized Enterprises Competitiveness Support Programme in amount of EUR 20,000 thousand. In addition to this, another agreement with EBRD, Green Economic Financing Facility (GEFF), was signed on February 2021 in amount EUR 2,500 thousand, out of which EUR 1,000 thousand were utilized during 2021. In 2022, the second tranche in the amount of EUR 1,500 thousand was disbursed.

The cooperation with EBRD continued with a new agreement, SME Reboot, signed in April 2022 in the amount of EUR 20,000 thousand. The purpose of this agreement is to enable small and medium-sized firms to invest in better-performing green technologies and to improve their working standards and processes. The initial tranche of EUR 10,000 thousand was disbursed during 2022, followed by a second tranche of EUR 5,000 thousand in 2023.

In November 2019 the bank entered into a subordinated debt agreement with ProCredit Holding AG. The subordinated debt meets the regulatory requirement for tier II capital and has been approved as such by the regulator the Central Bank of the Republic of Kosovo.

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

25. Shareholder's equity and reserves

Share capital: At 31 December 2023 the authorised share capital comprised 12,269,242 ordinary shares (2022: 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 AG	12,269,242	61,346,210	100
Total	**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 (2021: 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.

Following the initial adoption of IFRS 9 from the Central Bank of Kosovo, as of January 1, 2020, an amount of EUR 6,371 thousand has been presented for regulatory purposes as Other Reserve. This reserve represents the change between IFRS reported figures and CBK reported figures as of January 1, 2020, therefore it is a transfer from Retained Earnings to Other Reserve balance and is not distributable for dividend purposes.

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

	2023	2022
Balance at 1 January	(203)	105
Revaluation losses reserve for Investment Securities - FVOCI	99	(595)
Revaluation gains reserve for Investment Securities - FVOCI	(13)	259
Deferred tax on revaluation reserve for Investment Securities - FVOCI	(9)	34
Allowance for impairment	(8)	(6)
Balance at 31 December	**(134)**	**(203)**

Dividends paid: Dividends were not distributed in 2023 (2022: EUR 18,000 thousand).

Dividends proposed in 2023 subject to regulatory approval which were not recognised as liability at year end amount to EUR 15,000 thousand and will be distributed in 2024.

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

26. Related party transactions

The ProCredit Group (the 'Group') is made up of development-oriented commercial banks operating in the Southeastern and Eastern Europe and South America, as well as a bank in Germany. The Parent company of the Group is ProCredit Holding AG, a Frankfurt based entity which guides the Group. At a consolidated level the Procredit group is supervised by the German financial supervisory 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 on 31 December 2023 and 2022 are as follows:

	2023		2022	
	Parent Company	Entities under common control	Parent Company	Entities under common control
Statement of Financial Position				
Assets	-	**2,040**	-	**1,491**
Loans and advances to banks	-	2,040	-	1,491
Liabilities	7,578	**1,209**	**7,578**	**844**
Liabilities to banks	-	282	-	253
Liabilities to customers	-	244	-	128
Other Liabilities	40	683	40	463
Subordinated debt	7,538	-	7,538	-
Statement of Profit or Loss and OCI				
Income	-	**205**	-	**165**
Interest income	-	12	-	10
Fee and commission income	-	4	-	5
Other income	-	189	-	150
Expenses	**1,561**	**6,294**	**1,456**	**5,503**
Interest expenses	343	0.5	343	5
Fee and commission expenses	58	1,726	119	1,573
Administrative expenses	1,160	4,567	994	3,925

As of 31 December 2023, the Bank had a stand-by line agreement with ProCredit Holding with an undrawn available limit of EUR 15,000 thousand (2022: EUR 15,000 thousand), maturing on 31 March 2024 for the purposes of meeting general financing needs.

Key management remuneration:	**2023**	**2022**
Salaries	324	229
Short-term pension contributions (mandatory scheme)	16	12
Personal income tax	30	21
Total	**370**	**262**

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

27. Commitments and contingencies

	2023	2022
Guarantees, letters of credit and credit commitments		
Credit commitments (see details below)	85,101	84,386
International guarantees	32,290	30,314
Local guarantees	17,887	12,908
Letters of credit	1,574	770
Less: Provisions recognised as liabilities	(916)	(723)
Total	**135,936**	**127,655**
Credit commitments		
Unused credit card facilities	2,902	1,873
Unused overdraft limits	42,884	41,519
Non-disbursed loans tranches	5,010	13,087
Unused portion of credit lines	34,305	27,907
Total	**85,101**	**84,386**

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 additional material losses will be incurred in relation to legal claims outstanding as at 31 December 2023 except for those already provided for (Note 23).

28. 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.